



# **Innovation and Technology Venture Fund**

## **Guidelines For Application As Co-investment Partner**

**(March 2020)**



**Innovation and Technology Commission**

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The Government of the Hong Kong Special Administrative Region

## **Introduction**

This document provides an overview of the Innovation and Technology Venture Fund (“ITVF”) and the relevant application procedures for the selection of venture capital (“VC”) funds as Co-investment Partners (“CP”) of the ITVF.

## **Background**

2. The Hong Kong Special Administrative Region Government set up the HK\$2 billion ITVF scheme to encourage more private VC funding to invest in local innovation and technology (“I&T”) start-ups so as to create a more vibrant I&T ecosystem in Hong Kong. Under the scheme, the ITVF will co-invest with selected VC funds in local I&T start-ups at a ratio of approximately 1:2.

3. To facilitate administration of the ITVF, a limited company, The Innovation and Technology Venture Fund Corporation (“ITVFC”), has been set up. It serves as a special-purpose vehicle to co-invest with CPs and perform all necessary investment activities. The ITVFC invests in local I&T start-ups concurrently with the CPs upon invitation of the latter.

4. Further to the first round of applications invited in Q3/Q4 of 2017, six VC funds were subsequently selected as CPs to make co-investment with the ITVFC. The investee companies cover a wide range of businesses including financial technology, e-commerce, supply chain management, biotechnology and artificial intelligence.

5. To further explore co-investment opportunities, the ITVF now invites a new round of applications with a view to selecting more CPs to join the scheme.

## **Eligibility of VC Funds as Our CPs**

6. A VC fund, whether incorporated in Hong Kong or overseas (**Note 1**) and whether a newly established or an existing fund, is welcome to apply for selection as a CP if it meets the following criteria-

- (a) having an investment focus in I&T start-ups;
- (b) having an investment coverage including Hong Kong;
- (c) having a minimum remaining committed capital of HK\$120 million (**Note 2**); and
- (d) having a remaining fund life of at least five years to co-invest with the ITVFC.

### **Note 1:**

Upon selection as a CP, the VC fund concerned should have a place of business in Hong Kong to facilitate communication with local I&T start-ups and the ITVFC.

### **Note 2:**

Upon selection as a CP, the VC fund concerned must provide documents to prove its minimum remaining committed capital of HK\$120 million at the time of signing the Master Agreement with the Government.

## **Key Features of the ITVF**

### Contractual Relationship

7. Upon selection, the CP will enter into a contractual relationship with the ITVFC. Details including the rights and obligations of each party will be stipulated in a Master Agreement. Key terms of which are provided in **Annex I** for reference.

### Co-investment Arrangement

8. The CP has the obligation to invite the ITVFC to co-invest in local I&T start-ups within a five-year window (“Active Investment Period”). Throughout the Active Investment Period, the CP is responsible for identifying and recommending Eligible Local I&T Start-ups to the ITVFC for co-investment. All Eligible Local I&T Start-ups to be recommended by the CP should meet the requirements as stated in the Key Terms provided in **Annex I**.

### Co-investment Limitation

9. The ITVFC has set its investment limits in each CP and investee company -

- (a) the aggregate amount of ITVFC co-investments with a CP shall be capped at HK\$400 million;
- (b) the aggregate ITVFC investments in the same investee company shall be capped at HK\$50 million; and
- (c) for each investment in an investee company, the ITVFC investment amount shall constitute (i) not more than 40% of the original total target investment amount sought by the investee company, or (ii) HK\$30 million, whichever is the lower.

10. The ITVFC would decline a proposed co-investment under certain conditions which include but are not limited to the following -

- (a) the proposed investee company is unable to meet the eligibility criteria for a local I&T start-up as stated under this scheme; or
- (b) the business of the proposed investee company is in conflict with existing or planned Government policies or legislation.

### **Procedures for Application as CPs**

11. The ITVF scheme is now open for application as CPs from VC funds and the deadline for application is extended to 15 April 2020. Interested VC funds are invited to make applications by submitting (i) a proposal (a template is provided at **Annex II**), (ii) the required documents and any other supplementary documents, and (iii) the duly-signed declaration form at **Annex III**.

12. The proposal together with relevant supporting documents should be submitted to the ITVF Secretariat on or before 15 April 2020

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- (i) either by email (itvf-enquiry@itc.gov.hk) which should be titled “Application as Co-investment Partner (2020)”; or
- (ii) by hand to the drop-in box of the Innovation and Technology Commission located at the Staff Entrance, 2/F., East Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong.

13. The selection of CPs will be based on the criteria set out at **Annex IV**. The ITVF Secretariat may seek advice from an independent Advisory Committee, comprising veterans in the business and investment sectors as well as professionals and academics, on the selection of CPs under the ITVF scheme. Individual VC funds may be

invited to a presentation to the Advisory Committee to facilitate consideration of their applications.

14. The VC funds concerned will be notified of the result in writing after the selection process.

### **Enquiry**

15. Further information concerning the ITVF scheme is available at the website of ITC ([www.itc.gov.hk/en/funding/itvf.htm](http://www.itc.gov.hk/en/funding/itvf.htm)). Please note that ITC may issue supplementary information and guidelines from time to time in respect of the ITVF scheme. Interested VC funds are advised to check the above website for any update before making application. For enquiry, please contact -

Mr. LIM Kuen, Manager (ITVF)  
Tel.: (852) 3655 4836

Enquiry email:  
[itvf-enquiry@itc.gov.hk](mailto:itvf-enquiry@itc.gov.hk)

## **Disclaimers:**

1. *The submission of an application or any proposal by a VC fund (an Applicant) shall be taken to be an acceptance of all the terms of the Disclaimers herein.*
2. *The invitation for submission of applications or proposals under the ITVF scheme constitutes neither an offer nor the basis of any agreement which may be concluded in relation to the ITVF scheme. The Government reserves the right, without prior consultation or notice, to change the proposed terms of the ITVF scheme, including but not limited to the Guidelines for Application as Co-investment Partner (the Guidelines). The Government also reserves the right to negotiate with any Applicant about the terms of its application and terminate any or all negotiations at the Government's discretion before executing any binding agreement with a successful Applicant. The Government is not bound to give any reasons therefor.*
3. *The Government is not bound to accept any application, and reserves the right to accept or reject all or any part of any application at any time and is not bound to give any reasons therefor.*
4. *This document of the Guidelines shall not in any circumstances affect or limit the interpretation of any agreements that may be made between the Government and a successful Applicant. The co-investment arrangements described in the Guidelines are intended for general information of the ITVF scheme. The actual arrangements are subject to the terms and conditions stipulated in any agreement to be signed with an Applicant upon its successful application as a CP.*
5. *Whilst the information provided by the Government in the Guidelines has been prepared in good faith, it does not claim to be comprehensive or independently verified. Neither the Government, nor any of its officers, agents or advisors, accepts any liability or responsibility as to, or in relation to, the adequacy, accuracy or completeness of the information contained in the Guidelines or any other written or oral information which is, has been or will be provided or made available to any Applicant; nor do they make any representation, statement or warranty, express or implied, with respect*

*to such information or to the information on which the Guidelines are based. Any liability in respect of any such information or any inaccuracy in the Guidelines or omission from the Guidelines is expressly disclaimed. Nothing in the Guidelines or in any other written or oral information which is, has been or will be provided or made available to any Applicant should be relied on as a representation, statement or warranty as to the intentions, policy or action in future of the Government, its officers or agents.*

- 6. Each Applicant should make its own independent assessment of the proposed terms of the ITVF scheme and consult its own professional advisors in order to assess the risks and benefits of the application, as well as in respect of any financial, legal, tax and other matters concerning the ITVF scheme.*
  
- 7. All information from an Applicant will be treated as commercially confidential. Except where required by law or where the consent of the Applicant has been obtained, such information will not be disclosed to third parties other than those involved in assessing or advising on the applications or in other aspects of the management or evaluation of the ITVF scheme or the selection of CPs.*



## **The Innovation and Technology Venture Fund**

### **Key Terms of the Master Agreement**

#### 1. Execution of the Master Agreement

- 1.1 The Master Agreement (“MA”) will be executed in Hong Kong. The laws of Hong Kong will be designated as the governing laws and any dispute will be resolved first by mediation and if necessary by arbitration in accordance with the Hong Kong International Arbitration Centre Domestic Arbitration Rules.

#### 2. Duration

- 2.1 The Partner Fund shall have at least a fund life of 5 years for co-investment at the time of signing of the MA. In general, the duration of the MA will be the fund life of the Partner Fund, and in no case the duration could exceed 12 years. Upon signing the MA, the “5-year Active Investment Period” will commence and the Innovation and Technology Venture Fund Corporation (“ITVFC”) will co-invest actively with the Co-investment Partners (“CP”) in local innovation & technology (“I&T”) start-ups.
- 2.2 If no one single co-investment is ever made in the first 2 years since the commencement of the MA, the ITVFC reserves the right to terminate the MA with the CP or at its discretion provide a further grace period for the first co-investment to be completed.

### 3. Key Obligations of a CP

- 3.1 Throughout the Active Investment Period, the CP is obliged to invite the ITVFC to co-invest in all potential Investee Companies (“IC”) which qualify as eligible local I&T start-ups.
- 3.2 For each proposed investment, the CP shall at its own costs prepare and submit the required documents, including an Investment Proposal Report and a Due Diligence Report, to the ITVFC for deciding whether to go ahead with the proposed investment.
- 3.3 The CP shall actively identify and execute exit opportunities for both the CP and the ITVFC before the end of the MA.
- 3.4 The CP shall take all necessary actions as a professional investor to protect the interests of the Government and enhance the values of the investment.

### 4. Key Principles

- 4.1 The ITVFC has discretion in deciding whether to invest in (or withdraw from) any proposed investment. In making such decision, the ITVFC will consider, among other things, the following factors related to an IC:
  - a. whether it has sufficient Hong Kong presence, “I&T elements” and meets the definition of “Eligibility of a Local I&T Start-up for Co-investment”; or
  - b. whether it violates any current or planned legislation or government policies.

## 5. Eligibility of a Local I&T Start-up for Co-investment

5.1 The IC should be either (i) a company incorporated in Hong Kong, or (ii) an offshore company with only one direct wholly-owned subsidiary incorporated in Hong Kong (“wholly-owned HK company”), or (iii) other company structures as approved by the ITVFC on a case by case basis.

5.2 The IC shall meet all of the following criteria:

- a. the IC or its wholly-owned HK company was incorporated under the Companies Ordinance 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;
- b. the IC or any of its subsidiar(ies) (if any) engages in I&T business, covering any part of the research and development or production chain in Hong Kong; and
- c. the IC and all of its subsidiar(ies) (if any) have a total number of employees (including Hong Kong and overseas offices) being less than 250.

## 6. Restrictions

6.1 The ITVFC will co-invest with the CP in a matching ratio at 1 (for the ITVFC) to 2 (for the CP). Apart from that, the following restrictions must be observed:

- a. the aggregate amount of Government investments pursuant to the MA with a CP shall be capped at HK\$400 million;
- b. the aggregate Government investments in the same IC shall be capped at HK\$50 million; and
- c. for each Investment in an IC (whether under the same completion date (viz., same round) or with different completion dates pre-scheduled over a period of time (viz., multiple rounds)), the Government investment amount shall constitute (i) not more than 40% of the original total target investment amount sought by the IC, or (ii) HK\$30 million, whichever is the lower.

## 7. Fees and Incentives

7.1 The ITVFC will not pay any fee whatsoever to the CP or share the expenses incurred by the CP in entering or performing its obligations under the MA, such as carrying out due diligence and preparation of transaction documents for itself and the ITVFC, but the ITVFC will provide the following upside incentives.

- a. Upon the completion of the sale by the ITVFC of all but not some of its shares in an IC to a third party/parties, the ITVFC shall pay to the CP a performance incentive equal to 35% of realised capital gain arising from the sale of all of the ITVFC's shares in that IC. The realised capital gain for calculating the carried interest should be the net amount after deduction of Government Investment cost plus interest which could have accrued on such cost at the rate further specified below.

- (1) The interest rates are defined by the rates of fee payable by the Exchange Fund to Government funds and statutory bodies for placements which are published by the Hong Kong Monetary Authority in respect of the relevant years. For reference, the said rates for the last few years were 2.8% (2017), 4.6% (2018) and 2.9% (2019).
- b. The CP will be provided with a call option to purchase the co-invested shares in all of the ICs in which the ITVFC has been invited by the CP to invest within five years from the commencement date of the MA. When this option is exercised, the CP has to purchase all but not some of the shares in all of the ICs under the co-investment portfolio. It shall be exercisable at a cost of the principal amounts plus interests which could have accrued on such principal amounts (viz the interest rate as specified in paragraph 7.1(a)(1)). The call option can be exercised at most 2 times within the first 5 years after the commencement of the MA.

## 8. Exit Requirement

- 8.1 Before the end of the MA, the CP should locate third part(ies) to acquire the ITVFC's and the CP's stakes in the related ICs on a commercially reasonable efforts basis.
- 8.2 Should, at the end of the MA, the ITVFC still hold the shares of ICs, the ITVFC may exercise a redemption right to request the ICs to redeem the ITVFC's stake at a price based on an independent valuation.
- 8.3 If a CP Defaulting Event (to be further defined in the MA) has occurred before the end of the MA, the ITVFC has an

option to request the Defaulting CP to acquire all of the ITVFC's stakes in all ICs based on an independent valuation.

- 8.4 If an IC Defaulting Event (to be further defined in the MA) has occurred before the end of the MA, the ITVFC has an option to request the Defaulting IC to acquire the ITVFC's stake based on an independent valuation.

## 9. Other Key Terms

- 9.1 The tag-along rights, pre-emptive rights, information rights, typical termination provisions due to default, indemnities, confidentiality, warranties, conflict of interests and other protective clauses should be included.

**The Innovation and Technology Venture Fund**  
**Template – Proposal**

Note: Please complete the information required in the template and provide supporting documents for the application.



ITVF(R2)\_Proposal  
Form\_V1.0

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**The Innovation and Technology Venture Fund**

**DECLARATIONS**

1. The Applicant declares and warrants that
  - (a) it complies with and observes all legal and supervisory requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Cap 615 of the Laws of Hong Kong), the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing (for Authorised Institutions), and the United Nations (Anti-Terrorism Measures) Ordinance (Cap 575 of the Laws of Hong Kong); and
  - (b) sufficient and appropriate internal controls systems are in place in order to prevent and detect money laundering and terrorist financing.
  
2. To the best of the Applicant's knowledge, there being no other past, present or future dealings, state of affairs or obligations or commitment that would put the Applicant in conflict with its obligations under the Innovation and Technology Venture Fund Scheme and any agreement from time to time to be entered into between The Innovation and Technology Venture Fund and the Applicant (should the application be successful) except for those as set out below:

Declared and signed by :

\_\_\_\_\_  
(Authorised representative of the Applicant)

Name (Title) : \_\_\_\_\_ (\_\_\_\_\_)

Date : \_\_\_\_\_



## The Innovation and Technology Venture Fund

### Criteria and Marking Scheme for the Selection of Co-Investment Partners

The selection of venture capital (VC) funds (*Note*) as Co-investment Partners of the Innovation and Technology Venture Fund (ITVF) Corporation would be based on the following criteria:

(*Note: In this document, VC firm means the fund management firm as the **General Partner** and **Partner Fund** means the VC fund to be partnered with the ITVF for co-investment.*)

Attribute ( <i>Note 1</i> )	Weighting (%)
<b>A. General Background (Passing Mark: 7.5)</b>	<b>15</b>
Background and history of the VC firm	
Ownership, legal structure, lines of asset management business, branch and affiliate offices, regulatory compliance, involvement in litigation (if any)	
Factors indicating the VC fund's financial capability and strength	
<b>B. Personnel (Passing Mark: 12.5)</b>	<b>25</b>
Expertise and years of experience of the key personnel in investing in I&T start-ups in Hong Kong and other jurisdictions	
Expertise and years of experience of the investment team in investing in I&T start-ups in Hong Kong and other jurisdictions	
Number of employees in each of the business functions and locations	
Governing committees and organization chart of the VC fund by functions	

Attribute (Note 1)	Weighting (%)
<b>C. Investment Strategy and Processes (Passing Mark: 12.5)</b>	<b>25</b>
Investment philosophy of the VC fund	
Expertise and experience in early-stage investments, covering deal sourcing and screening approach, due diligence process and 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.)	
<b>D. Investment Performance (Passing Mark: 7.5)</b>	<b>15</b>
Historical performance of all funds managed by the firms with benchmark	
Historical performance of all VC investments, indicating successful exits through trade sale or public listing	<b>20</b>
<b>E. Local Presence and Support (Passing Mark: 10)</b>	
Proposed team and resources and any other value-added support for the 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	<b>100</b>
Total:	<b>100</b>
Overall Passing Mark	<b>50</b>

*Note 1* If a VC fund could not obtain the passing marks required in each attribute, this will be considered as failure in the selection process.

## Guidance Notes to VC Funds

VC funds are advised to refer to the following guidance notes on the assessment of each attribute before preparing the proposal for submission.

### **A. General Background (Total : 15 marks, passing mark: 7.5)**

Please provide a brief background of your VC fund with emphasis on its history since inception, asset under management, ownership, legal structure, lines of asset management business, branch and affiliate offices, financial condition, business plan, regulatory compliance and involvement in litigation (if any).

For the financial capability and strength, the VC fund should show evidence of strong binding commitments by its limited partners to the Partner Fund and whether its limited partners are credible, reliable, and supportive to the co-investment partnership with the ITVF.

### **B. Personnel (Total : 25 marks, passing mark: 12.5)**

Please provide a brief background of the key personnel and investment team, with details including name, official title, age, location, responsibilities, education, professional qualifications, working experience, length of service in the firm and years of experience in VC investment.

Please provide an organization structure by functions (e.g. investment team, support team, investment committee, client service team etc.) and the total number of employees by locations and functions.

Explain the role and composition of all governing committees, e.g. Board of Directors, Investment Committee, Operating Committee, Asset Allocation Committee etc.

**C. Investment Strategy and Processes (Total : 25 marks, passing mark: 12.5)**

Please describe the investment strategy and targeted portfolio construction of the VC fund. Please provide the asset under management by business, by account type, by stage, by asset location, by client location and by client type.

Please provide the investment status of prior VC funds, indicating the investment amounts that met the eligibility of I&T companies defined under the ITVF scheme.

Please describe the expertise and experience in early stage investment, especially its deal sourcing capabilities and screening approach, due diligence process and decision making process. Please describe the valuation methodologies on early-stage investments and post-deal monitoring processes.

Please describe the VC fund's expertise and experience in value creation which contributes to the growth and performance of the portfolio companies (e.g. support on management, financing, business development, marketing and expert support for development of core business technologies). The extensiveness, coverage and quality of the professional support through its international / regional network are also the essential factors for consideration.

**D. Investment Performance (Total : 15 marks, passing mark: 7.5)**

Please provide historical performance data of all prior VC funds and each VC investments, and via case studies, demonstrate (i) its capabilities to identify I&T companies which have strong application potential and (ii) the effectiveness of its investment strategy in analyzing, spearheading and capitalising on the latest trends of I&T development.

Please indicate the successful exits through trade sale or public listing and lessons learnt from the failure investments.

**E. Local Presence and Support (Total : 20 marks, passing mark: 10)**

Please provide the details of the size, establishment and structure of the local office in Hong Kong.

Please state its expected contribution to the local I&T ecosystem, in particular, how it may facilitate more vibrancy and the promotion of I&T development in Hong Kong.

Please describe the experience in managing co-investment fund or separate managed account. Furthermore, please provide the experience, if any, in co-investing with governments and quasi-governmental bodies in other economies through fund of funds, co-investment partnership or other modes of co-operation.