

Briefing Session 3 October 2017

創科創投基金

INNOVATION AND TECHNOLOGY VENTURE FUND

Objectives

- Encourage more VCs to invest in Hong Kong startups
- Increase deal flow
- Fill the valley of death: Series A and B stages

Overview

- Co-investment scheme
- Overall matching ratio of 1:2
- Eligible local I&T start-ups
- Maximum contribution per deal is HK\$30m; per co. is HK\$50m
- ITVFC and VC partners will invest and exit on the same terms

Which VCs are eligible?

- I&T Investment focus
- Investment coverage including Hong Kong
- Minimum remaining committed capital of HK\$120m
- Remaining fund life of at least five years
- No requirement for the fund to be incorporated in Hong Kong

Selection criteria

- Background and experience of the investment team (15%)
- Investment track record in I&T(25%)
- Strategic value and support that can be provided to the investee companies (30%)
- Local resources, business network and contribution to the Hong Kong ecosystem (30%)

Principles

- ITVFC as a passive investor; VC partners will make the decisions and do all due diligence
- VC will refer deals to ITVFC
- ITVFC will have the right of first refusal
- ITVFC will decline an investment if it is in conflict with Government policies, or has the potential to bring disrepute

VC partners' Responsibilities

- Identify and refer potential investee companies
- Negotiate investment terms and handle transaction process
- Assist investee companies to grow and expand their business
- Identify exit opportunities

Duration of Partnership

- At least 5 years and up to 12 years
- If no investment is made within the first 5 years, the Master Agreement will lapse automatically
- If the VC partner breaches the Master Agreement, the Master Agreement may be terminated

Fees and expenses

- No management fees
- Generally, no sharing of expenses
- ITVFC will bear taxes, stamp duties & registration fees etc re ITVFC's shares

ITVFC Investment Ceiling

- $\leq 40\%$ of target investment or HK\$30M, whichever is the lower
- Aggregate \leq HK\$50M
- Aggregate ratio for each investee company $\leq 1:2$
- Aggregate co-investment amount \leq HK\$400M

Incentives

- Sharing of investment risk
- Attractive carried interest at 35%
- Option to purchase all of ITVFC's shares in the co-investment portfolio at cost plus interest* within the first five years of co-investment

**Interest rates are defined by the rates of fee payables by the Exchange Fund to Government funds and statutory bodies for placements*

Exit - VC

- VC partners to identify third party purchasers and ITVFC will follow
- On same time, price and terms basis
- VC partners to handle the whole transaction
- In certain events, such as fraud, wilful misconduct, VC partners may be required to purchase ITVFC's entire stake

ITVFC may request Redemption by Investee Company

- Company pursue different line(s) of business
- Company ceases to be HK company
- Reason to believe that Company or members of Group may be involved in activities that may bring Govt into disrepute
- Expiry of Master Agreement

Eligible Local I&T start-ups

Hong Kong company

- Incorporated in HK with Its offices, OR its main business operation OR its key management OR leadership in Hong Kong
- Engaging in I&T business, covering any part of the R&D or production chain, in Hong Kong
- Total number of employees < 250

If it has a holding structure

- Investment can be made to the holding company
- This holding company must only hold & wholly own the chosen I&T start-up

Eligible Local I&T start-ups for co-investment to be made

- ITVFC will invest only in the shares of the start-up (e.g. ordinary shares, preferred shares)
- ITVFC will be a passive investor and does not require board seat
- VC partners will exercise proxy for ITVFC

Minority Rights of ITVFC

- Tag-along right with VC partner or if proposed sale of 50% or more of shares by shareholder
- Pre-emptive rights if issue of new shares
- If convertible preferred shares, conversion price subject to price adjustment if new shares issued at lower price
- No action by VC or investee company that alters rights of ITVFC
- ITVFC prior approval needed if transaction between VC & investee company



Application Deadline

15 January 2018

Result will be known by end April 2018



Q & A