

Don't just invest from Hong Kong
Invest in Hong Kong

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The Hong Kong paradox

- People invest from Hong Kong
- People invest through Hong Kong
- Few people invest in Hong Kong
- WHY???

The Hong Kong paradox

- Not lack of capital
 - Major financial center
 - Massive pools of local capital
- Not lack of projects
 - Hong Kong is a major center of fashion, financial technology, legal, mobile, UI/UX
- Not lack of need
 - As China changes, Hong Kong must also change and generate new types of employment

The problem

- Lack of a financial model
- VC model is not enough
 - Most firms in Hong Kong are small and non-scalable. A few may take over the world. Most will become stable solid local businesses
 - No easy exit at the IPO/pre-IPO stage
 - Hong Kong securities regulations are antiquated and hostile to startups. This is changing but not fast enough.
 - Bank employees cannot do VC investments for compliance reasons.
 - Creates a game show/lottery ticket winner mentality
 - High failure rate will not work

Bank loans / Friends and Family

- Bank loans
 - Banks will not lend to companies without stable sources of revenue or which have an innovative business model
- Friends and family
 - Perfect if you have a rich uncle. Not everyone has a rich uncle

Solution – Client centered finance and Smart microloans

- Client centered finance – Focus the interaction on the SME client and not the product
- Smart microloans – Loan based financing system based on loans

Client centered finance

- Bring the investment banking and solutions model to the SME
- I won't try to sell you a product. I will listen to you, and do everything I can to make your business a success
- Develop strong relationships with SME businesses – Helps due diligence and increases trust at both ends

Smart microloans

- Friendly regulation
 - Not a security or structured product under Hong Kong law
 - Regulated under money lending laws and not securities regulation laws
 - Loans can be easily resold and no compliance restriction by financial workers
- Easy exit
 - Loan automatically exits in one year
 - Can be easy to resell cash flow

Smart microloans

- Typical loan – USD 10000
- Principal in one year, monthly interest payments
- Base interest – 10%
- Accelerated payment – If business hits target, loan plus interest becomes due immediately
 - If the business wins, the investor wins. Effective interest rate can hit maximum allowed by Hong Kong law (60%)
- Smart contract technology – Payoff is described by a program enforceable under Hong Kong law
 - Custom solutions for each business
 - Allows for bundling and automated credit analysis

Smart microloans

- Aligns interests of investor and SME
 - Investor wants **every business** to succeed
 - Focus on creating a solid business and not winning at the lottery
 - Innovation for the sake of building a business, and not innovation for the sake of innovation
 - Business leaves the loan with a clean balance sheet
 - Extremely attractive to VC – 100% capital owned by founders. Solid revenue stream and proven business model
 - Extremely attractive to banks – Business exits loan with a solid revenue stream and good credit

Smart microloans

- Cash flows can be combined into baskets without expensive fund structures
- Transparency – You will be able to see every loan that makes up the basket
- Open source
 - <https://github.com/joequant/bitquant> - Open source template
 - http://joequant.github.io/bitquant/smart-contracts/contract_analyzer.html - Contract demo

Social benefits

- Generates employment and increases social stability
- Local high tech businesses are needed for Hong Kong to attractive financing for external business
- Get rid of the lottery ticket/game show culture and replace with one that produces solid, profitable businesses
- No business left behind – Capitalism is a fun game. Everyone should play
- Improved social perception of the finance industry – We really do useful things

Opportunities for investors

- Direct sourcing of loans
- Bundling loans for wholesale money
- Credit guarantees
 - If I trust the businesses, and you don't know them. I can put my money on the line
- Buying baskets of loans
 - Custom designed baskets
 - Thematic – Fintech, biotech, fashion, mobile, cryptocurrencies
 - Area centered – HK business targeting Greater China, Middle East, Europe, South East Asia
 - Growth or value – SME's that want to be the next google vs. SME's that don't want to be the next google
 - Portfolio blends

Current status

- Currently beta testing methodologies
 - Smart microloans drafted and have been issued
- Expected rollout – Asian Financial Forum 2016
- Looking for beta testing investors to test methodology