

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

Disclaimer

- This presentation is for informational purposes only and does not constitute an offer or solicitation for investment. No representations or warranties are give as to the accuracy of the information herein.
-

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 with 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