



INNOVATION

PROJECT ST@RT-UP

Hong Kong's digital community is launching start-ups to rival other silicon centres, writes *Jenni Marsh*

From Belarus to Boston, there is one thing bugging every city. It doesn't concern budgets, elections or austerity. It's more about Facebook, Tumblr and Google. Simply put, what's the Silicon Valley secret? *Forbes* magazine has been assessing the formula. It now tips Hong Kong as one of four cities most likely to take over from San Francisco Bay as the epicentre of tech innovation, along with London, Tel Aviv and Washington. The city's blend of ambitious entrepreneurs and cosmopolitan tycoons coupled with its unrealised potential is, apparently, a seductive mix. Now, tech angels excited by the Tumblr sale for US\$1 billion to Yahoo! last month and Instagram being acquired by Facebook for US\$1 billion last year, want to know,

can Hong Kong produce a global tech star? American entrepreneur Paul Orlando believes so. He saw the city's "silicon" potential during a trip in 2011. Impressed by its tech expertise, digital innovation and attractive taxation laws, all at the gateway to China, the founder of Chatfe and Inticiti Consulting relocated from New York to Hong Kong, positioning himself on what he hopes was the brink of a breakthrough. "I saw the city was ready to grow. A lot of what I experienced reminded me of New York's tech community in 2008." What it lacked, he says, was the infrastructure to connect venture capitalists with the right outfits. Essentially, Hong Kong needed a "scene" - an answer to London's Silicon Roundabout in the East End or New York's Silicon Alley in edgy Flatiron and Chelsea (Google's stomping ground) that would enable like-minded entrepreneurs to network, and give investors a portal to find projects. Casey Lau - a charismatic, social-media man about town - spotted the same weakness several years earlier, and

From left to right: Felix Lam, managing director of Red Chapel Advisors; Hong Wai-lun, co-founder and CEO of Snaptee; Tytus Michalski, managing director of Fresco; Elaine Tsung, director of the Hive; Casey Lau, community development manager of SoftLayer Technologies Asia; and Yat Siu, CEO of Outblaze. Photo: May Tse

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made it his mission to connect the dotcoms. Lau now co-runs StartupsHK a networking venture founded in 2009 that today has 5,000 members. The inspiration came from an Ultimate Frisbee addict and San Francisco-based "super angel" investor, Dave McClure. The founder of business incubator 500 Startups had been in town for a conference at Cyberport - a creative digital community set up by the government in Pok Fu Lam. When asked how Hong Kong - a digital city lacking a start-up culture - could



meets Shoreditch shabby chic, with low lighting, flowers in tubes, thick wooden furniture with exposed warehouse flooring, retro telephones and a terrace looking across Victoria Harbour. The co-working concept has come a long way from those Monday mornings sipping mochas from cardboard cups.

Elaine Tsung, centre director, tells me the Hive is attracting a wide mix of dynamic people from intellectual-property lawyers, to beer traders to app makers. Her role is to host and make clever introductions. "It's a microcosm," she says. "One company PhoneJoy was telling me it had trouble finding a metal maker to craft one specific part. We have a company here that designs metal business cards, so we introduced them. Another woman distributes phone gadgets and she's now representing them in the UK. It's pretty neat."

Other tech clusters have evolved in the ecosystem. Following that early hunch, Orlando has co-founded AcceleratorHK, the first accelerator program in Hong Kong (the US has hundreds). The three-

Left: Casey Lau, community development manager of SoftLayer Technologies. Below: Elaine Tsung, director at the Hive. Photos: May Tse

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Casey Lau, SoftLayer Technologies

replicate Silicon Valley's success he recommended embracing a coffee shop culture. "That was his advice. We never heard from him again, but it was like that scene in *Star Trek*, where they leave a book on an alien planet and a whole culture spawns from it." So, in the corner of a Times Square Starbucks six start-ups began meeting every Monday morning. From there, the small huddle grew and started inviting luminaries of the tech world to give talks; eventually a co-working space was born near the Hopewell Centre in Wan Chai - the city's first. "About one year ago, there was just 1,000 square feet of co-working space in

Hong Kong. That was BootHK - it could fit 60 people and was packed. Today there is 100,000 sq ft of co-work space spread out across the city owned by different people." One such space is the Hive. When we stop by on a Tuesday evening it is still packed with glowing Apple Mac logos. The Hive was designed by Londoner James Waterworth, a twenty-something who designed a home for Sienna Miller. In one year, its two floors in Wan Chai have expanded to five now covering 10,000 sq ft, and a second Hive is planned for another Asian city. The vibe is New York loft



capital, mentorship and co-working space. Meanwhile, in Sheung Wan, Simon Squibb - the founder of digital agency Fluid - has set up a real life *Dragon's Den*; the Nest is a hands-on incubator which invites start-ups to sell their ideas at monthly pitch days to win handsome investment in return for a princely chunk of their business. Others turn to crowd-sourcing sites, such as Kickstarter.

In January, Hong Kong-based Martin Kessler posted his venture PhoneJoy Play, which turns smartphones into games consoles. He asked for US\$50,000. By May, he had US\$70,000 and 1108 backers.

While for San Francisco, New York and Tel Aviv this is old hat, in Hong Kong everything's new. And that's creating a buzz. Tytus Michalski, an entrepreneur who co-founded investment firm PMA, which he sold in 2006 for over US\$200 million, says: "The Hong Kong start-up ecosystem has grown quickly in the past three years. Of course, it's starting from a small base, but the momentum is very strong right now." Lau also admits: "Hong Kong's tech scene is still in its infancy."

Perhaps surprisingly so for such a digital city, Stephen Smith, who runs a computer-aided design consultancy in the UK, has been travelling to Hong Kong for the past two decades. He remembers the city in the late '90s and early noughties as a world-leader for technical innovation. "When we came out here, the first thing we did was head to Kowloon and pick up the latest electronics for a fraction of the price of in the UK," says Smith. "Today that isn't the case. It



Yat Siu, CEO of Outblaze. Photo: May Tse

seems that Hong Kong lost its edge somewhere." Jake Sharp, a web developer at digital marketing agency Rush Hour Media, was similarly surprised to find Hong Kong lacking in prowess when he tried to find a job in the city after graduating with a BA in multimedia design and an MSc in computing science. "I tried applying for developer jobs, but the handful of companies I contacted weren't recruiting," he says. "A lot of the design work by those companies seemed behind that of Western standards so I figured there was nothing stopping me from starting my own firm." Sharp co-founded a digital agency with a local friend, who speaks Cantonese and English. They plan to use the business to fund apps and other start-ups they have in development. The sticking point, he says, is cash.

"Funding is hard to get almost everywhere in the world," Orlando says. "The different thing in Hong Kong is that while there is still a lot of money here, it historically has not gone into technology investment. For the past 30 years, jobs in finance and real estate paid well and attracted the top talent. There was no need to start a start-up." Furthermore, there have been cultural barriers. Chinese families have been reluctant for their offspring to spend their twenties in the high-risk start-up scene, preferring they enter reliable professions, such as banking or law.

The global village is helping push things forward, says Yat Siu, founder of Outblaze, a messaging service reaching 40 million users - one of the few "intrepeneurs" whose venture, founded in 1998, survived the dotcom bubble. "The landscape has changed hugely in 15 years," he says. "Real estate is no longer as obvious an investment in Hong Kong, and the finance sector is shaky. As more people study abroad, they get greater exposure to an internet culture. And so whereas people before were very much into restaurants and bars now we have a growing theatre of people passionate about tech returning to Hong Kong."

Felix Lam is a prime example. The angel investor professes to having modest financial knowledge, but has gone through three small exits, which have given him the experience to back a new project - Snaptee. "I guess what motivates me is the passion to see how technology can make an impact on our lives," he says.

What's more, as Facebook et al. become household names, local families are more inclined to let their offspring try their hand at "the internet thing".

Perhaps the most encouraging Hong Kong story to date is 9gag. The rapidly growing social-meme-sharing website was the brainchild of Ray Chan, then a law student at Hong Kong University, who by his own admission wasn't doing much law. The now 29-year-old's whimsical site, which attracted US\$2.8 million in seed funding last July, is now worth HK\$150 million and sees 67 million users a month - figures that put it on a par with Reddit. While 9gag's appeal is global

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You just need someone who sees an opportunity and captures it. It's that simple

Elaine Tsung, director at the Hive

- it was (wrongly) rumoured that last year's Colorado shooting had been forewarned on 9gag - the operation is still run from a modest office in Tsuen Wan. Chan could be the David Karp (Tumblr) of Hong Kong, a new media fameboy sipping Grey Goose in dragon-i with products to back up the partying, but he's remained refreshingly low key.

More recently, personalised T-shirt app Snaptee, which allows users to print their smartphone pictures onto tops, secured US\$600,000 at its seedling stage, and now employs eight staff and receives 6,000 orders per day. The project is co-founder Wai Lun Hong's second venture - his first, Gobuya.com, employs 30 people. And it looks set to be his biggest. "After Gobuya.com, Gary [my partner] and I were wondering 'what's the next step in technology?' The flash on the iPhone is great and we saw the success of Instagram," he says. "We realised that Instagram makes everyone a professional designer. So we put out an app that makes everyone a shirt designer."

But while its 14 investors came from Hong Kong and Singapore, the outfit is heading straight to the US, where it can capture a wider audience. "Hong Kong is a small market," Lau says. "That makes it hard to have an exit strategy. Who will buy you? Yes, Google is here, but it's a small office and it's not making acquisitions."

Lau receives scores of pitches a month, from a Facebook for pet dogs, to buttons websites. So, which start-ups are hot right now? "For me, social is kinda dead. So I tell people don't try to do that unless you have a magic app, like

face tagging without touching the screen. Hong Kong is famous for financial services and property, so those are the pillars." He sees Hong Kong-based socially orientated stocks-trading portal 8 Securities Limited as an inspiration. After two seedling rounds of US\$1.5 million and US\$8 million it closed another US\$3 million round last December, with 100 per cent follow-on from its original eight investors. The firm has now launched a Tokyo office, and boasts 5,000 accounts holding US\$1 billion in assets. The idea isn't as sexy as Facebook but the numbers are a turn-on. Hong Kong's most monetised idea, however, has stuck to the mainland market. 6Waves is a Times Square-based tech outfit, which raised US\$17 million in seedling rounds, followed by US\$35 million. The idea of the company was simple - take American mobile phone games and make them appeal to a mainland market. "People in China don't want to kill the mafia, they want a triad war," says Lau. "But I'm not sure I'd strictly count gaming as a tech start-up - a start-up's path is unknown. The gaming industry is well understood."

If you really want to know the next frontier, says Lau, it gets personal. Big data - the information trail we leave lurking on the web has long been controversial, but once the privacy issues are resolved, or side-stepped, it has the Pandora's Box potential.

But there's one final thing missing in Hong Kong - a hero.

In Kim Dotcom, the 39-year-old German-born founder of Megaupload, the city perhaps found an anti-hero. His empire was founded in the city, and from the millions he amassed, Dotcom took up residence in the penthouse suite at the Grand Hyatt in Wan Chai, living the rock-star lifestyle of a dot-com genius. "I was really impressed by Hongkongers' presentation and how the city is so efficient, non-bureaucratic and tax friendly. I made a trip, enjoyed the city, opened a company and never looked back," he says. But with Dotcom now residing in New Zealand and suing the Hong Kong government for the role he says it played in his company's demise - he has been accused of making US\$175 million in criminal proceeds - he is perhaps not the best advertisement for attracting foreign investment to the city.

Until we get that hero, Siu says funding will frequently stall after the seedling stage, where start-ups typically need around US\$1 million to make the leap.

Despite this, the Hive's Tsung is optimistic that Hong Kong could be the honey pot to produce the next Zuckerberg. In fact, she says, it's more likely than you think. "It's hard to predict what will be the next big thing. But we run a lot of pitch clubs and the young people coming along have seriously good ideas. It's not hard to learn to code or programme. You just need someone who sees an opportunity and captures it. It's that simple." ■