

Executive Summary

Purpose

This report examines the critical enabling factors for fostering successful entrepreneurship in Hong Kong. It highlights the strategic importance of start-ups in fuelling Hong Kong's economic growth and innovation. The report shows that start-ups are not just self-employment vehicles but also key in generating broader employment opportunities as they expand. Data from the World Bank reveals that a 10% increase in the number of new business start-ups results in a 2.4% growth in GDP per capita and a 2.9% rise in patent filings in the subsequent year, underscoring start-ups' impacts on both economic and innovative development.

Hong Kong's status as one of the world's most open economies presents numerous benefits, including robust infrastructure, renowned research universities, free capital movement, and strategic market access. To position itself as a premier innovation and technology (I&T) hub, Hong Kong must actively address and overcome the hurdles in its start-up landscape, maximising its potential as a conducive environment for entrepreneurial success.

This study adopts a people-centric approach, drawing insights from thorough interviews and focus group discussions with a varied pool of 73 stakeholders. This group comprises entrepreneurs, venture capitalists, professors, technology transfer professionals, incubator and research institute representatives, government authorities, and legislative councillors. A total of **14 recommendations** across 5 key areas including education, technology transfer, financing, market expansion as well as talent and enterprise attraction, are formulated to support policy efforts to build Hong Kong as a cradle for successful entrepreneurship with both regional and international appeal.

Challenges

Despite Hong Kong's favourable business environment, it only ranks 12th in the Global Startup Ecosystem Index 2023, trailing cities like Beijing, Shanghai, and Bangalore. Further analysis reveals two particular areas that need to be addressed by concerted policy efforts.

Firstly, the number of local unicorns — start-ups valued at over USD1 billion — is relatively low. With only 18 unicorns, Hong Kong lags behind Beijing's 91, Shanghai's 71, and Shenzhen's 32. This underscores the potential for growth and the necessity to foster a more supportive ecosystem.

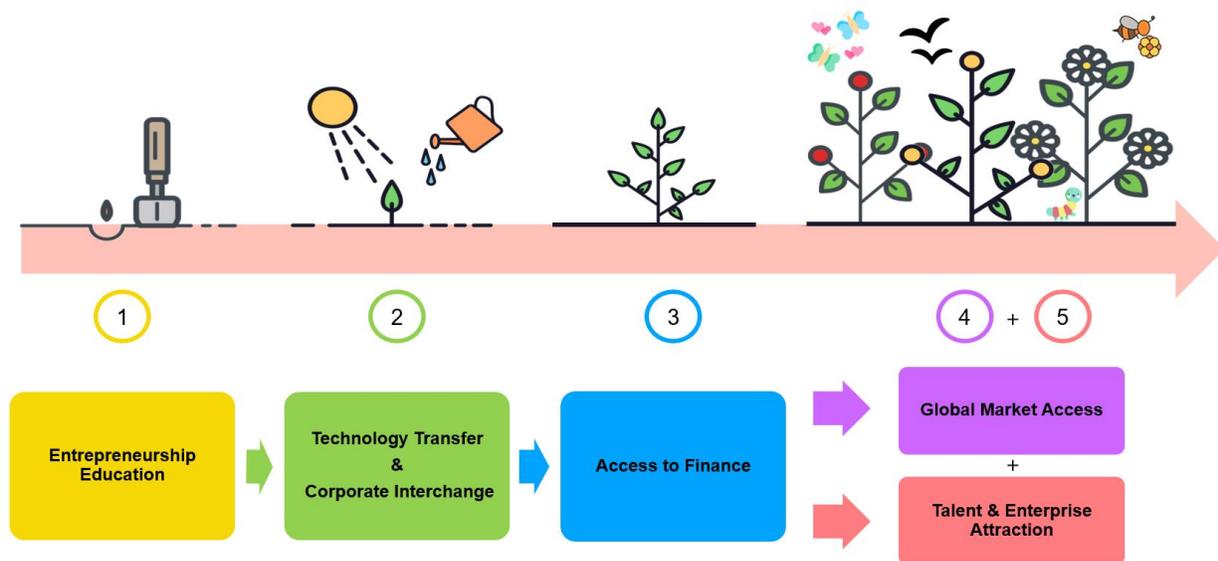
Secondly, there is an imbalance in Hong Kong's financing landscape. Despite priding ourselves as one of the top IPO arenas worldwide, venture capital (VC) investments in early-stage local start-ups remain relatively low. Addressing this imbalance in financing activities is essential for nurturing a robust start-up ecosystem. Enhancing venture capital access and promoting a culture of risk-taking and innovation are key to attracting more investments and supporting the growth of local start-ups.

Recommendations

To elevate Hong Kong as a hub of successful entrepreneurship, this report outlines a comprehensive strategy that supports start-ups from inception to maturity, as illustrated in **Figure i**. Our recommendations to the Hong Kong SAR Government (hereafter "the Government") span across cultivating entrepreneurial talent,

supporting technology transfer and corporate interchange, improving access to finance, aiding in global market expansion, and drawing in global talent and enterprises.

Figure i. Start-up growth cycle



Promoting Entrepreneurship Education to Cultivate Entrepreneurial Talent

Integrating entrepreneurship education (EE) within Hong Kong's educational framework is crucial for developing entrepreneurial competencies and inspiring start-up ambitions among youth. With limited exposure to EE during their formal basic education, Hong Kong's university graduates display lower start-up intentions compared to their international counterparts, due in part to a lack of viable business ideas and being risk averse. Learning from Denmark and Finland where EE is systematically integrated into the early-stage school curricula, Hong Kong's EE should be embedded at all educational levels, with tailored curricular and extracurricular initiatives nurturing an entrepreneurial mindset from the outset. The strategy for EE should start broadly in basic education and gradually shift to hands-on venture creation experiences in Higher Education. Key recommendations include:

- **Embedding "Entrepreneurship" into the science curriculum at primary school** to encourage problem-solving and innovation through project-based learning, where students apply scientific concepts to develop creative solutions;
- Increasing secondary students' EE engagement by **collaborating with entrepreneurship programme providers within the Business-School Partnership Programme**, offering interactive business simulation and co-designed training programmes; and
- **Developing cross-border, joint entrepreneurship programmes** between Hong Kong universities and Greater Bay Area (GBA) institutions. This would involve studies at home institutions combined with 1-2 years of immersive training at partner institutes, culminating in final year projects immersed in real-world entrepreneurial settings, with access to industry resources and entrepreneur networks.

Facilitate Technology Transfer and Corporate Interchange to Help Start-Ups Grow

To translate research into successful start-ups, universities' technology transfer offices (TTOs), incubators, accelerators, and other institutions must work together. Challenges such as insufficient technology transfer experts, an imbalanced incubation landscape with nearly 85% of start-ups remaining in public incubators, and a lack of private and public engagement in procuring start-ups' products and services present significant obstacles. Policy measures include:

- Developing a diversified incubator ecosystem by **incentivising world-class private incubators to set up in Hong Kong**. Establishing an **incubator hub in the San Tin Technopole** will enable local start-ups to access global networks and create synergies between local and global incubators;
- Helping start-ups expand businesses and find the path to achieve financial independence through **facilitating start-up participation in public procurement processes**, by breaking down larger contracts into smaller, more manageable ones, and **increasing the public and private sectors' adoption of start-up products and services** by expanding the scope of user participation of the Smart Government Innovation Lab (Smart LAB);
- **Subsidising the recruitment and training of local and international technology transfer professionals** to address the understaffing of technology transfer professionals at TTOs, research institutions, local tech companies, etc., thereby strengthening Hong Kong's capacity to commercialise research; and
- **Forming a Technology Transfer Alliance** linking TTOs with leading research institutes and industry partners to create a centralised platform that optimises resource allocation and enhances research commercialisation.

Boosting Entrepreneurs' Access to Finance

Access to finance is crucial for start-ups' survival, especially in the seed and early stages where the lack of funding is most significant. With 79% of start-ups failing to secure funding beyond the seed stage, it is evident that investors are often concerned about the high-risk nature of seed and early-stage ventures. Particularly, government investments tend to favour late-stage companies, exacerbating the difficulty for early-stage companies to obtain capital. In terms of exit opportunities, the relatively high market cap requirements of Chapter 18C of the Main Board Listing Rules of the Hong Kong Stock Exchange (HKEX) hinder the listing of start-ups in Specialist Technology Industries. Furthermore, start-ups are unable to fully benefit from government funding programmes due to the rigorous and time-consuming application procedures, as well as the absence of upfront payments in some cases.

To enhance the flow of capital towards start-ups, this report suggests:

- **Establishing an angel fund of funds (FOF)**. Similar to the Yozma Fund in Israel and the Shenzhen Angel Investment Guiding Fund. The proposed angel FOF could operate under the Hong Kong Investment Corporation Limited (HKIC). It would offer crucial seed-stage and early-stage venture capital to local start-ups through sub-funds jointly funded with private VC firms, with a stated priority in high-potential technology sectors such as life & health tech, AI & data science, advanced manufacturing & new energy;
- **Altering listing rules to facilitate capital market access**. The lack of companies listed under Chapter 18C of the Main Board Listing Rules of the HKEX points to barriers such as overly high market cap requirements. Referencing the Shanghai Stock Exchange (SSE) STAR Market, it is recommended to

revise Chapter 18C to lower the market cap threshold and add criteria more suited to start-ups, in order to facilitate listings of Specialist Technology Companies (STCs) in Hong Kong; and

- **Accelerating disbursement of government funding schemes for start-ups.** Despite the availability of various funding programmes of the Innovation and Technology Fund (ITF), most Hong Kong start-ups prefer other funding sources due to the complex application process and time-consuming vetting procedures, as well as the fact that funds may only be available as cash reimbursement. To address this, the Government can consider allocating a reasonable percentage of the approved funding as upfront payment for projects up to two years and backed by at least one guarantor.

Supporting Start-Up Expansion to GBA Mainland Cities and ASEAN Countries

For start-ups to achieve significant growth, market expansion to GBA Mainland cities and ASEAN countries is crucial. However, regulatory barriers can pose significant challenges. Hong Kong investors are regarded as overseas investors on the Mainland and are not allowed to access some of the fields of biotechnology and information technology services industries, in which Hong Kong companies have an edge. Previous research shows that 43% of Hong Kong start-up respondents chose the different institutional systems, e.g., legal and tax systems, in GBA Mainland cities as the largest obstacle impeding market expansion. On the other hand, 77% of Hong Kong companies responded that regulatory barriers, including licenses, quotas, patents or tariffs, are the top challenge when tapping into the ASEAN market. To further support start-ups' market expansion, the Government can consider:

- Engaging with Mainland authorities to gradually **relax entry restrictions for Hong Kong businesses in Mainland China**, allowing companies to leverage the vast market potential;
- **Expanding incubation services** of the Hong Kong Science and Technology Parks Corporation (HKSTPC) and Cyberport to locations in the GBA and the ASEAN;
- **Enhancing policy and trade information support** through Hong Kong Economic and Trade Offices in the ASEAN region; and
- **Setting up a one-stop GoASEAN platform** similar to the GoGBA platform under the HKTDC to offer comprehensive resources and insights on ASEAN market entry.

Attracting Global and Regional Talents and Enterprises to Supplement the Start-up Ecosystem

Concerted efforts are needed to bolster Hong Kong's talent support infrastructure and alleviate economic barriers, i.e., the high costs of living and doing business, to boost Hong Kong's appeal to global talent and strategic enterprises. For example:

- **Enhancing Hong Kong Talent Engage as a "one-stop" comprehensive service hub.** This includes further broadening the range of service offerings such as talent market and business services, specialised support teams to aid talent in relocation, integration and professional development, expanding hostel supply, and providing workplace rental subsidies;
- **Introducing further preferential tax incentives**, especially in corporate tax, to target high-potential start-ups and strategic enterprises to set up operations in Hong Kong. These businesses bring talent and capital, and also serve as potential exit channels for local start-ups.

By addressing the critical challenges in the start-up ecosystem and implementing the recommended measures, Hong Kong can unlock its full potential for innovation and economic growth. The synergies created by enhanced educational initiatives, streamlined technology transfer, improved access to finance,

expanded market opportunities, and the attraction of global talent and enterprises will catalyze a vibrant entrepreneurial landscape. This will bolster Hong Kong's position as a leading hub for start-up success and contribute to the region's prosperity.

Summary of Policy Recommendations

Recommendation 1. Promoting Entrepreneurship Education to Cultivate Entrepreneurial Talent

- 1.1 Formulating a policy framework for entrepreneurship education in basic education
- 1.2 Encouraging cross-border, experiential entrepreneurship programmes at the tertiary level

Recommendation 2. Facilitating Technology Transfer and Corporate Interchange to Help Start-ups Grow

- 2.1 Establishing a private incubator cluster in the San Tin Technopole
- 2.2 Raising the adoption rate of start-up products and services by both government and private sector
- 2.3 Setting up a Technology Transfer Talent Scheme (TTTS)
- 2.4 Setting up a Technology Transfer Alliance (TTA)

Recommendation 3. Boosting Entrepreneurs' Access to Finance

- 3.1 Establishing an angel fund of funds to provide Hong Kong start-ups with seed and early-stage venture capital
- 3.2 Reducing the barrier for tech start-ups to be listed under Chapter 18C of the Main Board Listing Rules of the Hong Kong Stock Exchange
- 3.3 Accelerating disbursement of government funding schemes for start-ups

Recommendation 4. Supporting Start-Up Expansion to GBA Mainland Cities and ASEAN Countries

- 4.1 Relaxing entry restrictions for Hong Kong enterprises in Mainland China
- 4.2 Reinforcing support on start-up expansion in GBA Mainland cities and ASEAN countries
- 4.3 Setting up the GoASEAN one-stop platform to offer practical information on entering the ASEAN market

Recommendation 5. Attracting Global and Regional Talents and Enterprises to Supplement the Start-up Ecosystem

- 5.1 Offering comprehensive support to facilitate talent attraction
- 5.2 Providing tax incentives to start-ups and strategic enterprises