

ANGEL FINANCING IN ASIA PACIFIC

A Guidebook for
Investors and Entrepreneurs



Edited by John Y. Lo

In collaboration with Patrick Mooney and Po Chi Wu

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Entrepreneurs

The world of angel investing has expanded greatly since the dot com bubble. An activity thought to be only local is now a worldwide phenomenon. John Lo has done a significant job organizing material on the rapid growth of the Asian angel market place and the emergence of region wide co-investing. This work is as detailed and comprehensive as I have seen in my angel investing over the last 25 years. Investors, venture capitalists, economic development officials, and the entire business community will be rewarded by reading this significant book. I am impressed with the comprehensiveness of this work, and will use it when doing business in the region.

– *John May, Chair Emeritus, Angel Capital Association,
and co-editor, “Angels Without Borders”
(World Scientific Press, 2015)*

Globally, entrepreneurial endeavour is being encouraged to deliver socio-economic gains and start-up ecosystems are being established as engines of innovation and growth. Collaboration and networking are a hallmark of collective learning. The contribution of the Asia Pacific is superbly captured in this book which provides a really useful articulation of the performance baseline and invaluable reference material.

– *Marcel van den Assum, Chairman, Angel Association NZ*

This new book, *Angel Investing in Asia Pacific*, covers the basics of this exciting new field in the world’s most dynamic markets. Edited by lawyer and independent scholar John Lo, the book encompasses numerous contributors by industry experts from China to India to Korea to New Zealand. The Asia region is alive with startups of all kinds, and this book provides the fundamentals to the financing trends that are driving their growth into a next generation of business leaders. Investors and entrepreneurs alike can gain insights from this comprehensive book into such ‘how to’s’ as becoming an angel investor, attracting capital, valuing startups, due diligence and intellectual property protection.

– *Rebecca A. Fannin, Founder & Author, Silicon Dragon*

This new book is a very useful aide memoire for parties engaged in the start up/ early stage eco system in The Asia Pacific Region where Angel investing is poised to experience explosive growth in the near term.

– *Anthony Clarke: CEO London Business Angels,
ex Chair of UK Business Angels Association and
President Emeritus EBAN*

Asians enjoy a long tradition of entrepreneurship, but funding these startups have relied primarily on family, friends and special circumstance. In order to meet the capital and hyper-speed demands of today’s cyber-world startups, a more disciplined mode of early-stage funding is needed – but grossly lacking in

Asia until recently. As Mr. John Lo explained in this book, now is a great time for Asian angel investors to enter centre stage.

Startups compete with their business models. Angel investment also requires a business model to manage a successful investment/exit cycle. In this book, John has done an excellent job illustrating the what, the how and the why of making money for the angel investor – who only makes money when the company he/she backs is successful. By reading this book, entrepreneurs also stand to gain in-depth knowledge of how angel investors work and therefore can become much more effective in fund raising. John is a long-time respected practitioner in the angel investment arena. His time-tested insights have allowed him to pick and organize the pertinent materials that angel investors and entrepreneurs can use immediately.

As the old Chinese saying goes: “Know thyself and thy opponent, then you will win one hundred of one hundred battles”.

*– Dr. Robert P. Lee, Adjunct Professor,
The Chinese University of Hong Kong, and Chairman,
Asia America MultiTechnology Association
(AAMA Pearl River Delta Chapter)*

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INVESTOR IN PEOPLE

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Preface and Acknowledgment

My initial personal encounter with angel financing started around 1997, when the dot.com wave hit Hong Kong. At the time I was with the Hong Kong office of a large US law firm, where we received a few assignments involving local individuals providing financing to Internet startups using US legal precedents. Soon thereafter, I found myself surrounded by friends doing startups and raising fund, and I became an angel. After the dot.com wave receded in 2000, I continued on as active angel, startup co-founder, and startup advisor to this date. In 2009, I also co-authored an introductory book on angel investment in Chinese for Hong Kong readers.

The idea of doing a book of this nature came about as a result of a number of experience and observations:

- Many market participants in my part of the Asia Pacific region generally are not as familiar with angel financing and related issues as those in the United States and other more advanced markets, and could benefit from having a handy and practical resource to keep them better informed about various aspects of angel financing.
- My attendance at the first Asia Business Angel Forum (ABAF) in Singapore in 2011 opened my eyes to the pan-Asia

Pacific aspects of the angel investment phenomenon. It inspired the idea that perhaps a book from a regional perspective may be useful and interesting, both for practitioners and policy makers.

- In recent years, the globalizing trend has made it more feasible to do cross-border angel investing, which actually has been occurring with more frequency. Practitioners are becoming more interested in learning more about what is happening beyond their respective countries and any related opportunities.

One of the challenges in this undertaking was the need to line up authors to write the various country reports under Part B. Thanks to a network built over many years from the ABAF connection and the powerful reach of the Internet, after much travail an impressive panel made up of experts on various localities were put together.

Much of the observations and ideas in Part C are traceable to my personal experience since my initial exposure to angel financing in the late 1990s. Over these years, as a dually qualified (Hong Kong and California) lawyer, I have worked with many startups, and handled numerous angel and VC/PE financing and acquisition transactions. In the later part of this period, I also started to participate in many local and international angel functions, such as various annual gatherings of the Asian Business Angel Forum, the Angel Capital Association in the United States, among others.

Part C is intended as a primer. It addresses primarily to an Asia based audience interested in developing a deeper understanding of angel financing. The purpose is to highlight and alert readers to the most pertinent issues in the startup and angel investment processes, and to spur them to learn more. Although most of the topics touched on in this book are covered in depth by other books and online resources, they speak to a different market. Readers should certainly be encouraged to move on to further their knowledge with help of such resources.

I thank all the chapter authors and co-authors of Parts B, C, and D for making the effort to participate in this very meaningful project. I wish to express my deep appreciation for the assistance of my two co-editors, Mr. Patrick Mooney and Professor Po Chi Wu. Patrick played a major role to oversee and review the country chapters. A deft and effective editor and former VC practitioner, Po Chi gave his Midas touch to not only all my chapters under Part C, but also the introduction, the Indonesia chapter (Chapter B10) and the two country reports I wrote.

In addition, I wish to express my sincere appreciation to my longtime friends Kenneth Y. Choy (also former and current law colleague), and Vincent W. Chu (seasoned professional in investment management and former investment banker) for their overall counsel and close review and editing of the manuscript I wrote. The generous time and input of Po Chi, Ken and Vincent have considerably enhanced the substance, readability, and clarity of my writing.

I also thank Messrs. William H. (Bill) Payne and Alan Zeman for sharing their personal experience in the two forwards. Professor Richard Harrison's afterword provides a brilliant summation and is much appreciated.

Finally, I wish also to acknowledge and thank the following parties for their support to make this book possible. (a) ACJV for allowing the authors courtesy access to its website for research; (b) Zero2IPO for providing and pre-releasing research information on China; (c) organizations and related individuals in giving relevant information, including Hong Kong's Innovation and Technology Commission, InvestHK, Science Park, Cyberport, Hong Kong Business Angel Network; (d) founders and startups who have given time and cooperation to be profiled here; (e) friends and colleagues who have assisted in various ways by giving suggestions, ideas and time and effort and too numerous to name; (e) a former collaborator who partially drafted earlier versions of Chapters B1 and C1 through C4 but who for business reasons decided to discontinue and remain anonymous; and (f) members of my family, including Wynne Lo, my daughter, for providing research assistance, and Wendy, my wife, and Edwin, my son, for their

general support and encouragement. Last but not least, I wish to dedicate this book to my late parents, Mr. & Mrs. T. S. Lu, whose nurturing, kindness and faith in me, have been a constant driver for me to persist in completing the work and in meeting life's challenges in general.

The book as written probably contains many imperfections. As an initial attempt to tackle this broad subject, which can only be done with a multiple author approach, I am sure there is much room for improvement. I wish to acknowledge that all errors, inaccuracies, undue omissions and problematic judgmental issues relating to my chapters, and any issues and problems due to my coordination and editing input are ultimately my responsibilities.

John Y. Lo
Editor

Foreword 1: Angel Financing in Asia Pacific

The financing of startup companies by wealthy businesspersons is not a new phenomenon. But, because these transactions were often confidential, few records exist. We suspect, however, that solo business angels have been active all over the world for millennia. Perhaps the first documented transaction marked the beginnings of General Electric when J. P. Morgan provided mentoring and financing to light bulb inventor Thomas Edison in 1878.

Angel investors are active investors, meaning they invest time and money in portfolio companies. This differentiates angel investors from those private investors who only provide financing to companies. Successful entrepreneurs have repeatedly validated the importance of the mentoring, advice and director services provided by their angel investors. However, solo angel investors usually operate in stealth mode, that is, without public knowledge of their activities. This is not nefarious; it is simply typical that most wealthy individuals do not publicize their investment or philanthropic activities.

Venture capital, that is, raising money from foundations, endowments and businesses, which is then invested by fund managers into startup ventures, is a much more recent activity. While venture capital probably dates back to the 1940s, the first recognized venture capital investment was made by a group of individuals in Fairchild Semiconductor in 1959 in New Jersey. Those

same investors were the principals in Venrock venture capital firm formed shortly thereafter. Since raising venture capital funds was both public and newsworthy, the press has been actively documenting the importance of VC financings for many years.

The public awareness of angel investing changed in the early 1990s. The ArchAngels in Edinburgh (1992) and the Band of Angels in Menlo Park (1994) were the first two formally organized angel groups in the world. (No doubt that loosely organized angels networks predate these two thriving angel organizations.) The fact that angels could then join a group, share expertise, pool funds, negotiate quality deals and mentor investee companies after funding, all without publicizing the names of wealthy members, was a significant milestone. Within a few years, the press began to become aware of the good works of angel investment groups, and publicized their activities.

The number of angel groups grew rapidly from as few as 10 in the early 1990s to more than 1000 worldwide today. At least half of the active angel groups have been formed in the last 10 years. The primary advantage of joining an angel group is the shared expertise of the group in both evaluating deals and in helping companies grow and exit. Groups also attract deal flow, share best practices and provide how-to education to experienced businesspersons who know little about actually evaluating startup opportunities and doing a deal.

Why do investors become angels? A carefully crafted portfolio can provide significant returns to angels for invested capital, but is there a return on the time invested by angels? We usually find an altruistic motivation that accompanies investors' drive towards financial returns, such as local economic development or a sense of giving-back to those who provided early career encouragement, or a desire to continue to hone business skills or learn new ones after retirement.

While solo angel investing is a world-wide phenomenon operating under the radar, angel investing in groups emerged and grew rapidly first in North America and Europe. Groups in a few countries in Australasia and Asia quickly emulated the better group practices. That said, few of the world's 1000+ angel groups has

been operating for decade or more. And, all are willing to share best practices. Today, it is rather easy to determine the proven models for angel groups and to then decide which model might be most attractive to the culture of investors in your region. Two wonderful guide books for starting angel groups are, as follows:

- *A Guidebook to Developing the Right Angel Organization for Your Community* (2004) by Susan Preston
- *Creating Your Own Angel Investor Group: A Guide to Emerging and Frontier Markets* (2014) by Laura Baker (Both books are without charge as PDF downloads from the Internet.)

After making 15–20 investments as a solo angel, I made a personal decision 10 years ago to invest only through angel groups. Why? Because I found deal flow to be substantially higher for angel group members and the business acumen necessary to make investment decisions was available from among the membership. Furthermore, I could make a contribution to the group by doing those tasks that I enjoy (such as screening) and avoiding tasks that I dislike (such as due diligence)!

The number angel groups is growing rapidly in the Asia Pacific region. Fortunately, champions of new angel groups everywhere can benefit from the mistakes and successes of those who started angel groups by trial and error since the early 1990s. The steps necessary to start a group are outlined in the two books above.

Happy angeling!
William H. (Bill) Payne
January 2016

Foreword 2: The Fun of Creating Business in Asia

I enjoy creating businesses. There is nothing like starting a business from zero, and ending up with many zeros in the bank.

When I came to Hong Kong in 1975, I set up a garment business with big dreams.

When I first landed in HK, I was fascinated by the unique entrepreneurship among the Chinese and their can-do spirits, coupled with a business-friendly environment in this cosmopolitan city, I knew I would have the opportunity to realize my dream. Opened my first restaurant California followed by many and then Lan Kwai Fong was born. Lan Kwan Fong over the years became a symbol that stands for the vibrant entertainment and night life scene in Hong Kong.

Now Lan Kwai Fong has a bigger playground — China, where I am increasingly spending more time there every week. With the biggest middle class in the world, we hope to ride on their growing demand for lifestyle and entertainment in the world's most exciting market.

When I go to China, I often meet with young people who have shown their curiosity and creativity in their work. I believe their passion represents the future of China, and the popularity of Internet opens up all sorts of new opportunities in e-commerce, and especially for the guarding angels who want to offer them financial supports.

As an adviser to the HK\$1 billion (US\$129 million) Alibaba Hong Kong Entrepreneurs Fund, I always bump into young people who want to create their own start-up and seek for advice. More often than not, I would tell them — you have to love what you do. Because if you truly love what you are doing, you will be good at it and you will be able to advance.

As an entrepreneur, you need to have confidence and decide for yourself what you really love in life. You need to be creative and always see the beautiful side of things. You have to look around and see what is available, think out of the box and make it better. You should strive to always turn a negative around into a positive and use it to your advantage.

Breezing through this inspiring book is such a pleasurable experience because I can share, from my 45 years of business experience, in many of the start-up challenges and opportunities in this part of the world. To this end, I would like to congratulate John Y. Lo for putting together a comprehensive book on angel financing in Asia Pacific, a truly must read for investors and entrepreneurs who are serious for opportunities in the region.

Allan Zeman

Introduction

John Y. Lo

Why a Book on Angel Financing in Asia Pacific?

From Silicon Valley,¹ the culture of startups and angel investment has been spreading to the rest of the world like wildfire. While books and commentaries abound on angel financing and related topics in the West, publications on this phenomenon in the Asia Pacific region or from an Asia-wide perspective remain scarce.² Angel financing is a critical link in the building of the New Economy. It is also vitally important in bridging the needs of myriad aspiring startups, including some future Asian Googles and Facebooks, on their paths to becoming great companies and all

1. 'Silicon Valley' as used in this context goes beyond the geographic confines of the San Francisco Bay Area, but rather the startup and angel investing ecosystem that sprang up in various parts of the United States some half a century or more ago of which the geographical Silicon Valley is representative. The ecosystem is an amalgamation of numerous characteristics such as the availability of talented and innovative people, universities and research facilities, funding sources, supporting services providers, active mentors, risk takers with success stories, stable laws and regulations, and supportive government policies and programs for entrepreneurship. While startup ecosystems in other areas of the world possess some of these characteristics as well as others unique to their locale, Silicon Valley is generally recognized as possessing the most comprehensive startup ecosystem. Thus, our use of 'Silicon Valley' reflects this recognition.

2. In this book, we will use the term 'Asia' and 'Asia Pacific' interchangeably, and the former term is intended to include both Australia and New Zealand.

that implies. As such, a close look at angel financing situations and issues in Asia Pacific is compelling.

What Does This Book Aim to Accomplish?

This book is largely a ‘practitioner’s’ book rather than a scholastic endeavour. It is written for general readers and breaks down into four parts – A, B, C and D.

In Part A, namely this chapter, we provide an overview of the organization of the book, highlighting the focus and substance of the core components, namely Parts B and C, as well as the concluding chapters under Part D. We also provide some preliminary observations on distinctive elements in the Asia Pacific angel investing milieu against the situation in the leading angel market, the United States.

Part B aims to capture, from a primarily journalistic angle, the developing startup and angel scenes in certain key countries or territories in the region, specifically: Hong Kong, China, Korea, Japan, Taiwan, India, Thailand, Malaysia, Singapore, Indonesia, Australia and New Zealand. In each country report under Part B, the authors trace the major trends and issues of technology and innovation-driven entrepreneurial efforts and the attendant angel investment activities. This shows a mosaic of this dynamic field in this vast region, with relevant insights to guide the way forward for all those who are interested.

Part C takes a more analytic and prescriptive approach on the subject by making observations, providing analyses, and suggesting proper procedures for starting up and startup financing. We begin with the angel investors’ perspective and then shift the focus to that of entrepreneurs. We articulate the general elements in the process, and at the same time, consider unique circumstances in Asia. As the main author and editor is a US-trained and Hong Kong-based lawyer by profession, the discussion may be coloured by an emphasis on the legal transactional perspective, although the intent is to achieve a more balanced treatment.

In the concluding chapters under Part D, we first address the subject from a policy and comparative angle, to extract some

direction and wisdom for the policy makers and relevant government agencies who are eager to foster startups as engines for growth in the new economy. We close with an overview about the reasons and views on investing in Asia Pacific as angels.

The Asia Pacific Landscape

The Asia Pacific region includes a wide spectrum of cultures, as well as diverse political and economic systems. Very roughly, we may divide it into the following five groups: (1) Greater China, encompassing the mainland, Hong Kong SAR, Macau SAR³ and Taiwan, (2) Northeast Asia, comprising Korea and Japan, (3) South Asia, encompassing primarily the Indian sub-continent, (4) Southeast Asia, covering the ASEAN countries, and (5) Australia and New Zealand. Angel financing across this wide geographic span presents a fascinating picture of diversity, vibrancy and challenges.

Australia and New Zealand as Mature Angel Spaces

In terms of institutional development and societal awareness for angel investment, Australia and New Zealand are probably the closest to the US and UK models when compared to the rest of the territories in this region. The socio-political and economic contexts and developmental stage are similar to those in the United States, with the key differences being in the population, market size and level of technology. These differences shape some of the distinctive issues facing startup players in these two countries. In addition, due to the physical proximity of these two countries to the rest of Asia, startup players and investors in Australia and New Zealand naturally tend to look at markets in Asia, and also explore opportunities to build synergy with Asian countries.

3. Macau is of course well known for its gaming industry. The local government has taken steps to encourage technology and innovation ventures, but at the present, angel financing activities appear largely undeveloped.