



Be a smarter start-up

A guide to growing your business in Hong Kong

kpmg.com/cn/start-up



Andrew Weir
Senior Partner,
KPMG in Hong Kong



“At KPMG in Hong Kong, we have noticed a wave of activity in the market helping start-ups with their funding or helping them grow their business.

We have often been asked to provide a short guide for business founders on how to be a smarter start-up. Now we have done just that. This is a brief guide summarising some valuable pointers, including what start-ups need to consider, where to access information and what networking opportunities they should seize. If you find this guide useful, please feel free to share it with your business partners, investors, mentors or anyone you think might benefit from it.

KPMG has sponsored and hosted numerous entrepreneurial events and our teams have advised a number of start-ups on their journeys to becoming successful businesses.

Please contact us for any further assistance.

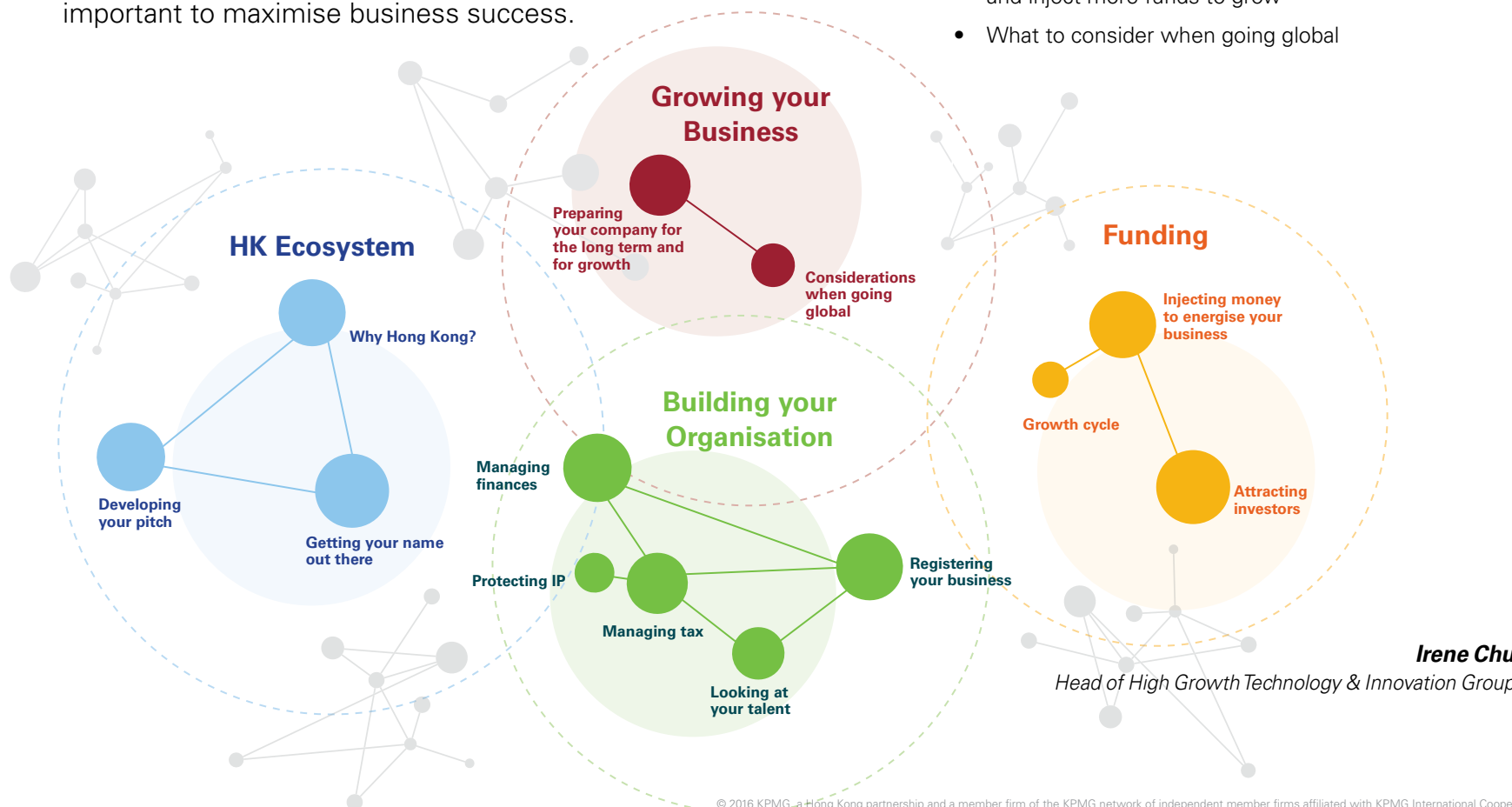
All the best! ”



Foreword

At KPMG, we understand the importance of entrepreneurs working to transform new ideas into thriving companies. Founders face considerable challenges as they work to bring new ideas to the marketplace while taking on leadership responsibilities.

Raising capital, finding talent, establishing a corporate governance framework, and other management initiatives take time and are important to maximise business success.



What's inside this guide:

- Why Hong Kong is one of the best places to start a business
- Tips on how to get your name out in the Hong Kong environment
- Tips and tricks for registering your business, protecting your intellectual property (IP) and managing your tax, your people and your finances
- Ways to prepare your company for the long term, including for growth and going global
- Ideas on how to build your business, attract investors and inject more funds to grow
- What to consider when going global



Irene Chu
Head of High Growth Technology & Innovation Group

Why Hong Kong

Hong Kong offers exciting opportunities for start-ups

Hong Kong features in the top 10 countries for doing business¹

Factors include an economic policy of free enterprise and free trade, the rule of law, a well-educated and industrious workforce, sophisticated commercial infrastructure as well as a seaport and an airport.

Why Hong Kong is great for business

1 A commercial centre and trading hub

Despite Hong Kong's small size it was the eighth largest trading entity in the world in 2013.²

2 An excellent test market

Many companies use Hong Kong as a test market for their products and services before they expand into China.³

3 A micro market

With ~ 7.2 million inhabitants, Hong Kong has one of the most diverse populations in the world.⁴

4 Hong Kong is a great location from a tax perspective

It has a low tax rate applied to a comparatively narrow income base.

5 Gateway to and from China

Hong Kong is still viewed as the gateway to China for foreign companies and is increasingly becoming the gateway to the rest of the world for many Chinese companies.

This is enriching the local market and making the Hong Kong ecosystem even more desirable.

The Chinese market is likely to become more open to foreign investment following the economic reform since the Third Plenary Session of the 18th Central Committee of the Communist Party of China was held in Beijing from 9-12 November 2013.

The decisions on some major issues related to comprehensively deepening reform will have a positive impact on China's Outward Direct Investment and Foreign Direct Investment activities.⁵

6 Easy to recruit talent and bring in experts

Hong Kong is an attractive location for expatriates, from the perspective of both work and family.

A low-rate income tax system and a reasonably straightforward process for securing employment visas for valuable, skilled employees combine to make Hong Kong a good choice of location for a business – especially one that requires access to international talent.

Visas are available for investors establishing or joining a business in Hong Kong and their dependents. Hong Kong also offers excellent ease of access for people needing to travel for global or regional roles, or for family holidays.

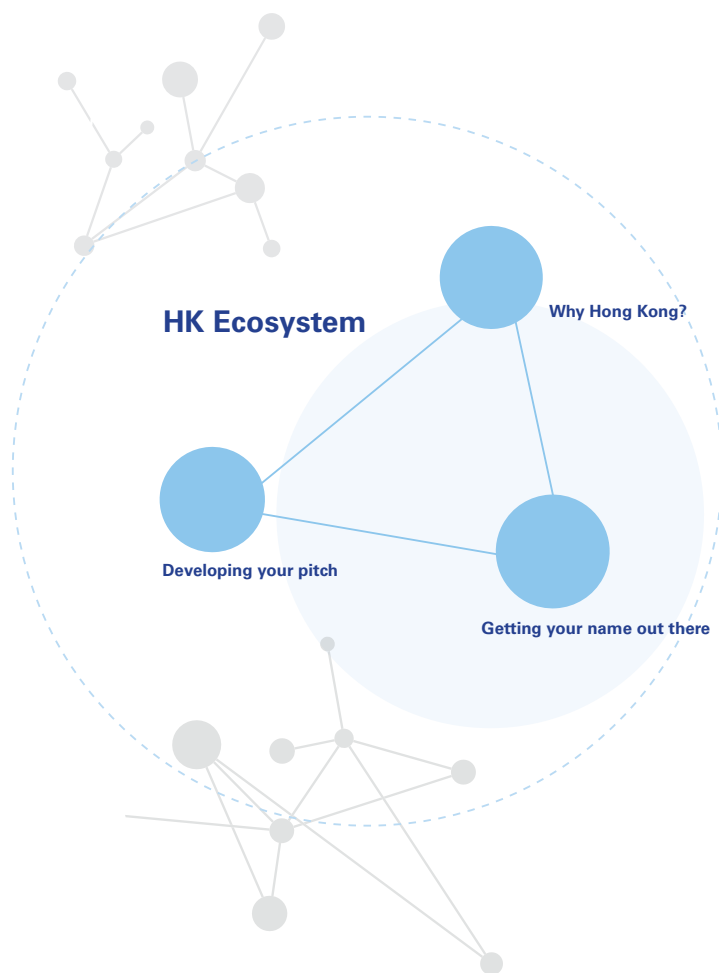
¹ Source: 'The Global Competitive Index 2014-15', WEF, Global Competitiveness Report 2014-15, www3.weforum.org/docs/img/WEF_GCR2014-15_Global_Image.png

² Source: 'Hong Kong: The Facts – Employment', Information Services Department, Hong Kong Special Administrative Region Government, www.gov.hk/en/about/about/hk/factsheets/docs/employment.pdf

³ Source: HKTDRC Research, www.hong-kong-economy-research.hktdrc.com

⁴ Source: 'Hong Kong: The Facts – Population', Information Services Department, Hong Kong Special Administrative Region Government, www.gov.hk/en/about/about/hk/factsheets/docs/population.pdf

⁵ Source: The Third Plenary Session of the 18th Central Committee of the Communist Party of China was held in Beijing during November 9-12, 2013, which saw the new Chinese leadership reveal its new policies and initiatives for the country. www.kpmg.com/cn/en/issuesandinsights/articlespublications/pages/Third-Plenum.aspx



Egidio Zarrella
Head of Clients & Innovation



Why Hong Kong is a leading business location

- Low tax rates and a simple tax system
- Free economy
- Free flow of information
- Stable and fully convertible currency
- Absence of exchange controls = free fund flow
- Clean, efficient government
- Reliable communication, transport and other infrastructure
- Free port
- Strategic location
- High-quality business and professional services
- Rule of law and independent judiciary
- Educated, diligent workforce
- High standard of corporate governance
- Strong protection of intellectual property
- Easy to incorporate

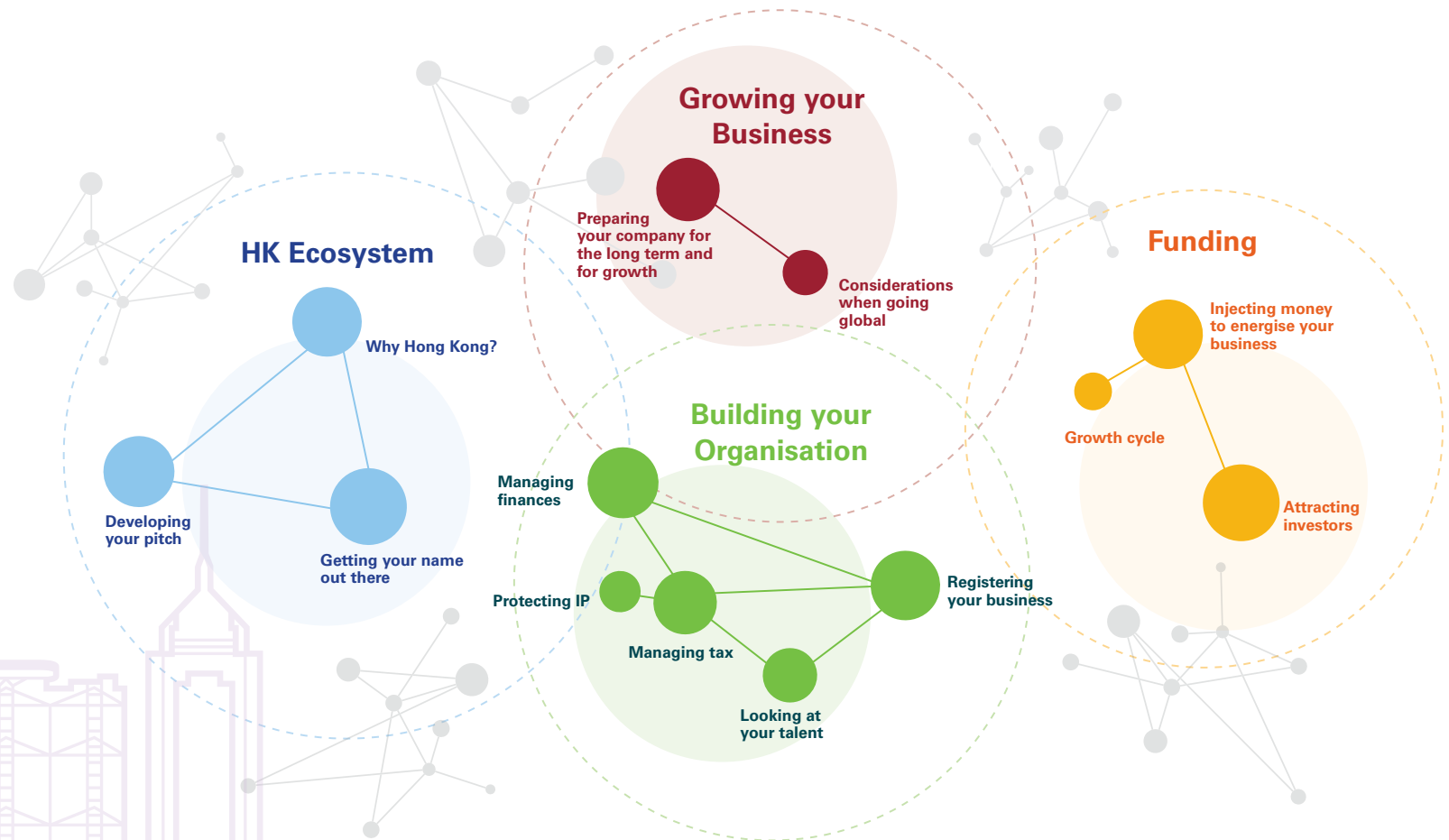
Source: 'Best Business City', Information Services Department, Hong Kong Special Administrative Region Government

HK Ecosystem

Once you start up you can access a range of support

Business community supporters:

- Your business partners
- Investors
- Attorneys
- Regulators, e.g. tax authorities
- Talented professionals
- Suppliers
- Clients
- Advisors
- Colleges and universities



Entrepreneur community supporters:

Hong Kong offers myriad opportunities for like-minded entrepreneurs to get together, discuss ideas and offer support. However, it is also about building your brand and reputation with investors and corporates that can help and support you.

Becoming active in the community and utilising the facilities that Hong Kong offers can be a strong catalyst for success, not only from a domestic market perspective but also in terms of developing a springboard for expansion.

Government

Economic development agencies can support companies as they grow.



Invest HK
www.investhk.gov.hk



Startmeup
www.startmeup.hk



Hong Kong Science and Technology Parks
www.hkstp.org



Cyberport
www.cyberport.hk

Incubators and accelerators

Incubators and accelerators provide short-term access to facilities.

For example:



Nest
www.nest.vc



Paperclip
www.papercliphk.com



CoCoon
www.hkcocoon.org



blueprint
www.blueprinthk.com



TusPark Global Network
www.tgnglobal.com

Early-stage investor associations



Hong Kong Venture Capital and Private Equity Association
www.hkvca.com.hk



Hong Kong Business Angel Network
www.hkban.org

Hong Kong start-up news



StartupsHK
www.startupshk.com

Get your name out there

Economic development agencies

Small and midsize enterprises (SMEs) are an important driving force in Hong Kong's economic development

- There were 321,000 SMEs in Hong Kong as at December 2014.⁶
- They constituted over 98 percent of the territory's business units and accounted for about 47 percent of private sector employment.⁶

SME support

- The Small and Medium Enterprises Committee (SMEC) was appointed by the chief executive to advise him on issues affecting the development of SMEs and to suggest measures to support and facilitate their development and growth.
- Three funding schemes have been established:
 - The SME Loan Guarantee Scheme
 - The SME Export Marketing Fund
 - The SME Development Fund, which helps SMEs secure loans, expand markets outside Hong Kong and enhance overall competitiveness.

The Support and Consultation Centre for SMEs (SUCCESS) is an information and advisory centre for SMEs: www.success.tid.gov.hk.

The Hong Kong Trade Development Council SME Centre is located at the Hong Kong Convention and Exhibition Centre.

Free access to business electronic databases, a reference library and a regular publication (SME Pulse), seminars, workshops and other activities are organised to help broaden SMEs' business knowledge and enhance their entrepreneurial skills.

Regarding consultation services, SMEs seeking professional and expert advice may apply for the 'Meet-the-Advisors' Business Advisory Service or join the SME Mentorship Programme.

⁶ Source: 'Hong Kong: The Facts – Trade and Industry', Information Services Department, Hong Kong Special Administrative Region Government

“Hong Kong's start-up ecosystem has seen tremendous growth in the past few years, in part due to the efforts of companies like KPMG and other firms, which have been supporting and facilitating interactions between start-ups and investors.”

Charles Ng, InvestHK



About InvestHK

InvestHK is a department of the Hong Kong Special Administrative Region Government established in July 2000 to attract foreign direct investment and support overseas and mainland businesses to set up or expand in Hong Kong. It provides free advice and customised services to help businesses succeed in Hong Kong's vibrant economy.

Since 2000, InvestHK has completed over 3,700 investment projects, creating more than 36,400 new jobs in the first year of operation or expansion and over HKD 88 billion of investment.

For more information, please visit www.investhk.gov.hk and www.startmeup.hk.



InvestHK

The Government of the Hong Kong
Special Administrative Region





About Hong Kong Science and Technology Parks

Comprising Science Park, InnoCentre and Industrial Estates, Hong Kong Science & Technology Parks Corporation (HKSTP) is a statutory body dedicated to building a vibrant innovation and technology ecosystem to connect stakeholders, nurture technology talent, facilitate collaboration, and catalyse innovations to deliver social and economic benefits to Hong Kong and the region.

Established in May 2001, HKSTP has been driving the development of Hong Kong into a regional hub for innovation and growth in several focused clusters including Electronics, Information and Communications Technology, Green Technology, Biomedical Technology, and Material and Precision Engineering. HKSTP has a comprehensive incubation programme for technology start-ups to accelerate their growth by offering R&D facilities, laboratories and technical centres with professional support services to help transform participants' ideas into real products.



About Cyberport

Cyberport is a creative digital cluster with over 660 community members. It is managed by Hong Kong Cyberport Management Company Limited, which is wholly owned by the Hong Kong SAR Government. Its vision is to build a legacy of entrepreneurial excellence that establishes Cyberport as a leading global innovation and technology hub.

Cyberport is committed to facilitating the local economy by nurturing digital industry start-ups and entrepreneurs, driving collaboration to pool resources and create business opportunities, and accelerating digital adoption through strategic initiatives and partnerships. Equipped with an array of state-of-the-art tech facilities and a cutting-edge broadband network, the Cyberport community is home to four grade-A intelligent office buildings, a five-star design hotel, and a retail entertainment complex.



HK Ecosystem



About Nest

Nest empowers entrepreneurs with funding, marketing, strategy, sector know-how and networks.

Nest works with some of the biggest names in business to run a series of mentor-driven accelerator programmes around the world. Designed to support the needs of high potential and fast growth start-ups, the intensive 12-week programmes include a unique mix of resources to enable entrepreneurs to build and scale their business rapidly.

www.nest.vc



“At Nest, we build what we call ‘the best in class branded accelerators’ to help start-ups connect to global resources in a specialty area. Good examples are platforms such as the HealthTech accelerator with AIA or FinTech with DBS Bank.

We have proved the model works for both sides to innovate faster and scale with pace. We give start-ups on our platforms unique competitive advantages and we give corporates a new window into the future!”

Simon Squibb, CEO @ Nest



What is CoCoon?

CoCoon provides one of the largest co-working spaces in Hong Kong and organises regular community events that connect entrepreneurs with co-founders, collaborators, mentors and investors. Its mission is to help start-ups succeed and to promote entrepreneurship in Hong Kong and Asia.

Since June 2012, over 450 entrepreneurs have joined CoCoon and many have embarked on their journeys in entrepreneurship. Members who have come through CoCoon have joined incubation programmes at the Hong Kong Science and Technology Parks and in San Francisco, Beijing and New York.

CoCoon frequently partners with established technology and innovation-orientated organisations to promote entrepreneurship. Some of these partners include Google, Dropbox, LinkedIn, Evernote, Xiaomi, Startup Weekend, Hong Kong Broadband Network, InvestHK, Hong Kong University of Science and Technology (HKUST) and The University of Hong Kong (HKU).

www.hkcocoon.org



Theodore Ma with prizewinners at the CoCoon Annual Start-up Exchange.

“KPMG has been a valuable business partner for our CoCoon members, who are looking for mentorship from an established player in the Hong Kong market providing lots of insights and practical tips for them to start up their businesses.”

Theodore Ma, CoCoon



StartupsHK has been building Hong Kong's tech start-up community since 2009 through networking events, conferences and workshops by building a stronger ecosystem through the www.startupshk.com website, which features the latest start-up news, events calendar and job listings, as well as curates Hong Kong's most extensive start-up directory showcasing 500+ start-ups and founders at www.startbase.hk.



“ Hong Kong needs multinationals like KPMG to add validity to the start-up scene. It's great to have them support our events and we are excited to tap into their USD 100 million fund set aside for start-up investments! ”

Casey Lau,
Co-founder StartupsHK

“ It's exciting to work with KPMG in the start-up space. Their experience and know-how in scaling a business is invaluable to start-ups. ”

Gene Soo, Co-founder StartupsHK

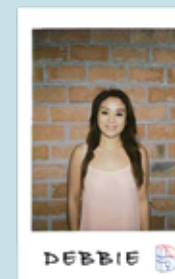
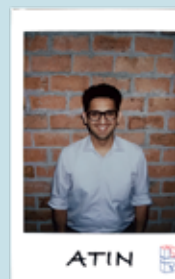
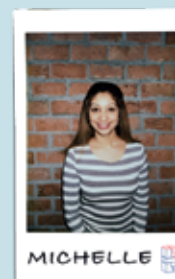
About blueprint:

Combining a 20,000 sq ft co-working space and B2B accelerator, blueprint is the destination of choice for the tech crowd of Hong Kong.



blueprint
building a tech community
SWIRE PROPERTIES

www.blueprinthk.com



The blueprint team in Quarry Bay.

“ blueprint demonstrates how corporates and start-ups can work together to mutual benefit, especially in Hong Kong where enterprise is highly valued. The blueprint space delivers an exciting office environment to entrepreneurs, providing connections between the Swire Group of companies and over 60 start-ups under one roof in the thriving business district of Taikoo Place. ”

Michelle Buultjens, blueprint

HK Ecosystem



Tuspark Global Network (TGN) is a platform for connecting start-ups, as well as financial and investment resources globally. Hong Kong represents the base from where TGN leverages its 20 years of experience in operating technology parks and connecting with their vast network of partners, business resources, investors and government agencies from its mother company Tus-Holdings. TGN has incubated over 400 companies and IPO'ed 19 of them. More details can be found at www.tgnnglobal.com & www.tuspark.com

Tuspark Hong Kong, as part of the Tuspark Global Network, runs the largest co-working space in Hong Kong with spaces located at the major districts in the city. Its parent company, TusHoldings, operates a network of science parks in more than

30 cities in Mainland China and runs close to 30 TusStar incubation programmes. Given TusPark Hong Kong's extensive network in China, it offers unique business growth opportunities through its diverse network and also aids in providing events and seminars, which feature highly experienced speakers from various industries to interact and engage with entrepreneurs.



Joanna Cheung,
Managing Director of TusPark
Hong Kong



“Start-up friendly corporates are vital in accelerating new ventures, especially in Asia. Companies like KPMG, with deep local expertise, can quickly impact a start-up's growth.”



Deepak Madnani,
Founder & CEO
of Paperclip
Start-up Campus

- Serial entrepreneur and self-proclaimed “Failure Specialist”; has had several founder journeys
- Founder of Paperclip Start-up Campus, where start-ups and entrepreneurs can collaborate and learn best practices to accelerate new venture development
- Currently manages companies in Hong Kong and China in supply chain management, design and manufacturing of furniture and other products
- Mentors start-ups, runs innovation business model sessions for corporates and angel investors
- With Paperclip, entrepreneurs can tap into the latest and most effective start-up development curriculum, commonly known as the Lean Startup methodology and Business Model Canvas tools

Expertise: start-up coaching, mentorship, angel investing, sustainability, manufacturing and running accelerators. Interests: social impact investing

www.papercliphk.com

Chambers of Commerce in Hong Kong

Multiplier for your business

Regular events in support of the start-up community and that promote innovation in Hong Kong include chamber events.



British Chamber SME Marketplace event held at KPMG Hysan Place



Analytics for Hospitality & Leisure: Driving practical insights hosted by the American Chamber of Commerce.



Innovation and Technology Series organised by the Canadian Chamber of Commerce.



How to Drive Innovation in Hong Kong event hosted by the Australian Chamber of Commerce.



Creative Day hosted by the French Chamber of Commerce.



Group photo of all speakers who participated at the Creative Day.

Chambers of Commerce supporting SMEs:

American Chamber of Commerce

Entrepreneurs/SME Committee

www.amcham.org.hk

Australian Chamber of Commerce

Small Business Network

www.austcham.com.hk

Canadian Chamber of Commerce

Entrepreneur/Small Business Committee

www.cancham.org

British Chamber of Commerce

Small & Medium Enterprises Group

www.britcham.com

French Chamber of Commerce

Small & Medium Enterprises Committee

www.fccihk.com

Developing your pitch



Anson Bailey
Business Development

What you need for your pitch

Initially, a one-two page executive summary to attract investors.

Later, possibly for the investor meeting: more details, including information about potential financial returns.

What the investors are likely to be interested in:

Company

Including the founders and their industry experience

Product or service

Including features and potential benefits, product specifications and technical requirements

Management and technical teams

With an emphasis on your engineering talent, relevant experience and entrepreneurial track record, as well as your ability to execute while creating and sustaining a viable product

Market opportunity and existing competitors

Sales and marketing strategy, including pricing and distribution

Development milestones

Financial information

Including projected sales and profits, capital requirements and exit strategy

Other advisors or consultants supporting your company

How to build your brand

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

- Warren Buffett

Your brand is one of your company's most valuable assets. Every interaction shapes the overall brand perception. The most successful start-ups craft a brand strategy early on.

What to watch out for when building your brand:

- Branding is more than logos and taglines
- Do not underestimate the time it takes to develop a good brand
- Do not underestimate the money it can cost
- Do not underestimate the effects of everyone in your ecosystem promoting your brand
- Always be consistent – the most damaging thing you can do to your brand is to be unpredictable

Be genuine and consistent in everything your company does. Consumers build a brand perception based on what they have come to expect from your company.

Whether the consumer is surfing your company's website, driving by a billboard advert, reading an email from a service rep or using your products, the brand experience and visual identity should be consistently invoked and easily recognisable.

RISE Conference

RISE

KPMG is honoured to be a sponsor of RISE – one of the biggest tech conferences in Hong Kong which was held from 31 July to 1 August 2015. RISE was brought into Hong Kong by Web Summit from Dublin, with the 2015 conference in Hong Kong attracting 5,000 delegates and a large contingent of attendees, more than 50 percent of whom were from overseas.

The conference created a learning and sharing platform for tech start-ups eager to raise their profile by meeting potential investors or exploring collaboration opportunities.

RISE is returning to Hong Kong in May 2016 and is excited to be extending this year's event to a 3-day conference.



Hong Kong Secretary of Commerce and Economic Development, Gregory So (second from right), with Web Summit Founder Paddy Cosgrave (far left), Startups HK Co-founder Casey Lau (second from left) and our Partner of Business Development at KPMG, Anson Bailey (far right) at the RISE conference.



Technology Innovation Centre



KPMG Capital is an investment fund created by KPMG International's member firms. Its aim is to invest in solutions that provide unique insight and tangible business value to clients and the marketplace. Our focus is on finding solutions that address critical business issues in areas such as data analytics, cyber security, business transformation, and growth.

At KPMG Capital, we are especially interested in:

- organisations that offer differentiated and disruptive technology solutions
- technology innovators and thought leaders
- data and analytics service providers
- private equity firms/venture capital fund partners

Insights Centre

In our 2014 KPMG International Data and Analytics Survey, we found that 72% of the companies interviewed plan on spending more than 6% of their sales revenue on data and analytics in the next 2 years. However, 74% of those executives who responded found it difficult to make decisions around analysing data. Executives recognise that there is huge potential in analytics but need an approach that will bring the opportunities from data and analytics to life for their business – ‘exploring the art of the possible’.

KPMG has created the Insights Centre, located in our Prince's Building office in Central, in order to make this work; a next generation working environment that allows our clients to collaborate with us and see their data and analytics solutions come to life.

The Insights Centre delivers:

Collaboration

With interactive touch screen video walls, breakout screens, and tablets, the Insights Centre is designed for KPMG and our clients to work together on innovative ideas to address business issues.

Demonstration

Fully integrated into the KPMG Insights Lab that hosts a suite of the latest data and analytics technologies, the Insights Centre serves as a window to KPMG's portfolio of solutions that covers growth, risk and cost agendas.

Acceleration

Leveraging the proven techniques of KPMG U-Collaborate, the Insights Centre sessions serve as a change tool that aligns key stakeholders quickly, accelerates generation of ideas, and turns them into concrete actions.

Execution

Designed around interactivity, the Insights Centre enhances our Audit, Tax, and Advisory services by easing the way requirements are captured, deliverables are showcased, and results are communicated to management.



Torsten Duwenhorst
Data & Analytics

Injecting money to energise your business

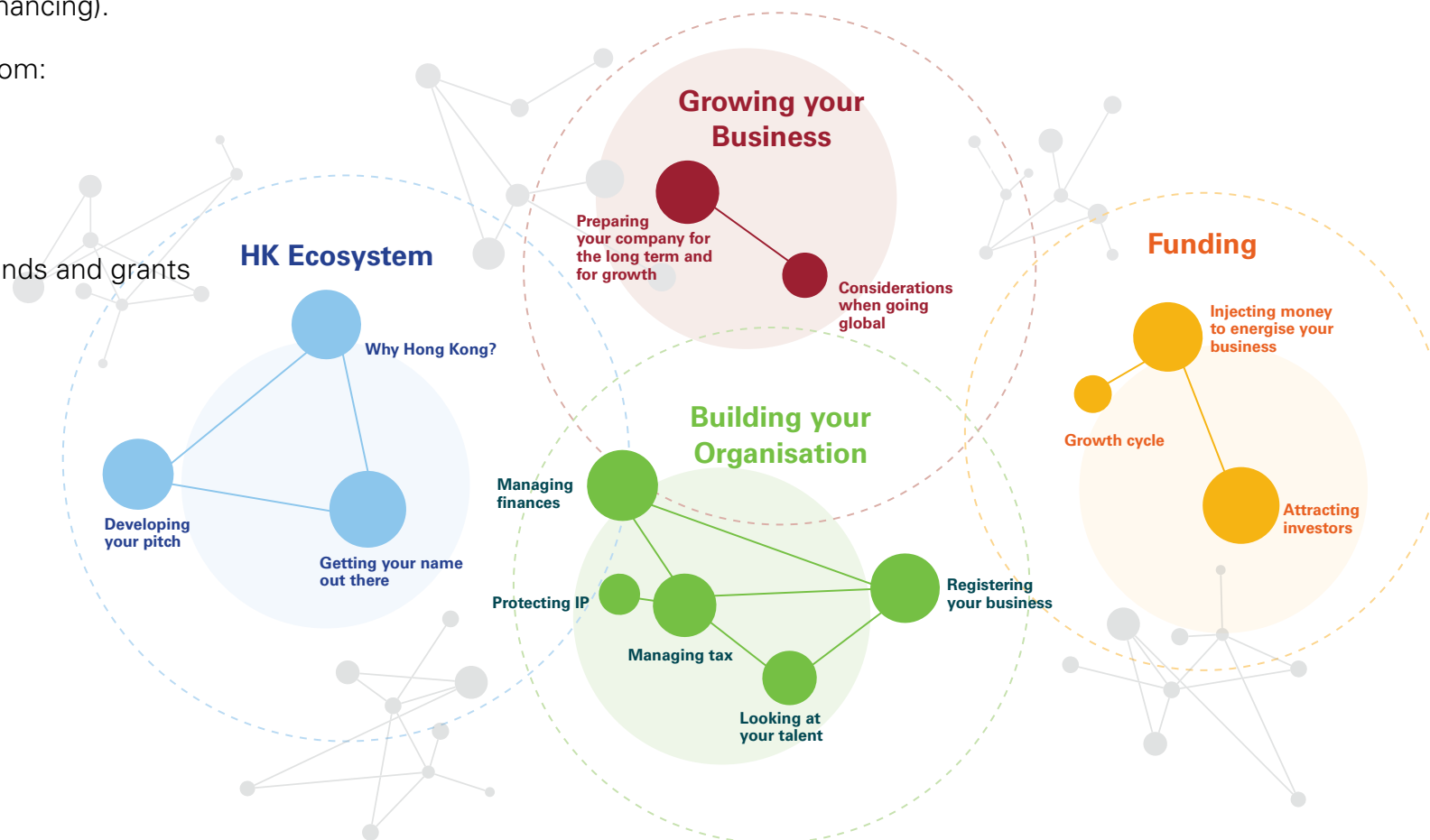
Raising capital can typically take place in several stages (known as rounds), each of which will likely carry different terms, conditions and milestones.

These include equity and debt financing.

Equity is the most common approach to early-stage investment, since most start-ups will not have enough revenue or history to attract debt financing (bank financing).

Equity financing may come from:

- Accelerators
- Strategic investors
- Angel investors
- Government investment funds and grants
- Venture capitalists



Attracting investors

What potential investors look for

Founders who have 'skin in the game'

Founders who have made a financial commitment to the growth of their start-up are more attractive to investors. Investors will be less likely to invest if founders have not taken personal and financial risks to get the start-up off the ground.

Sound financial reporting

The completeness and accuracy of underlying records for all business transactions, including equity transactions, are the priorities.

Controls over cash flow

- Conduct monthly bank reconciliations
- Regularly compare actual results to the budget
- Protect systems and intellectual property from unauthorised access and use
- Review expenditures before purchase commitments
- Establish standard terms and conditions for sales arrangements, with exceptions subject to appropriate review and approval
- Implement procedures to comply with applicable equity issuance requirements, including board approval of stock option grants with proper support for fair value-based assumptions
- Understand obligations and restrictions embedded in financing arrangements

You will need to:

- Focus on cash forecasting to keep investors informed about liquidity
- Understand and fulfil your tax compliance requirements
- Seek advice on revenue recognition; e.g. if you are a tech company – we have a number of professionals who are experts on this topic
- Possibly implement a full-scale Enterprise Resource Programme (ERP) system – if you are considering it, contact an ERP expert at KPMG for advice
- Focus on employment matters and payroll taxes
- Upgrade accounting personnel and systems when the core business gains momentum and before a major liquidity event

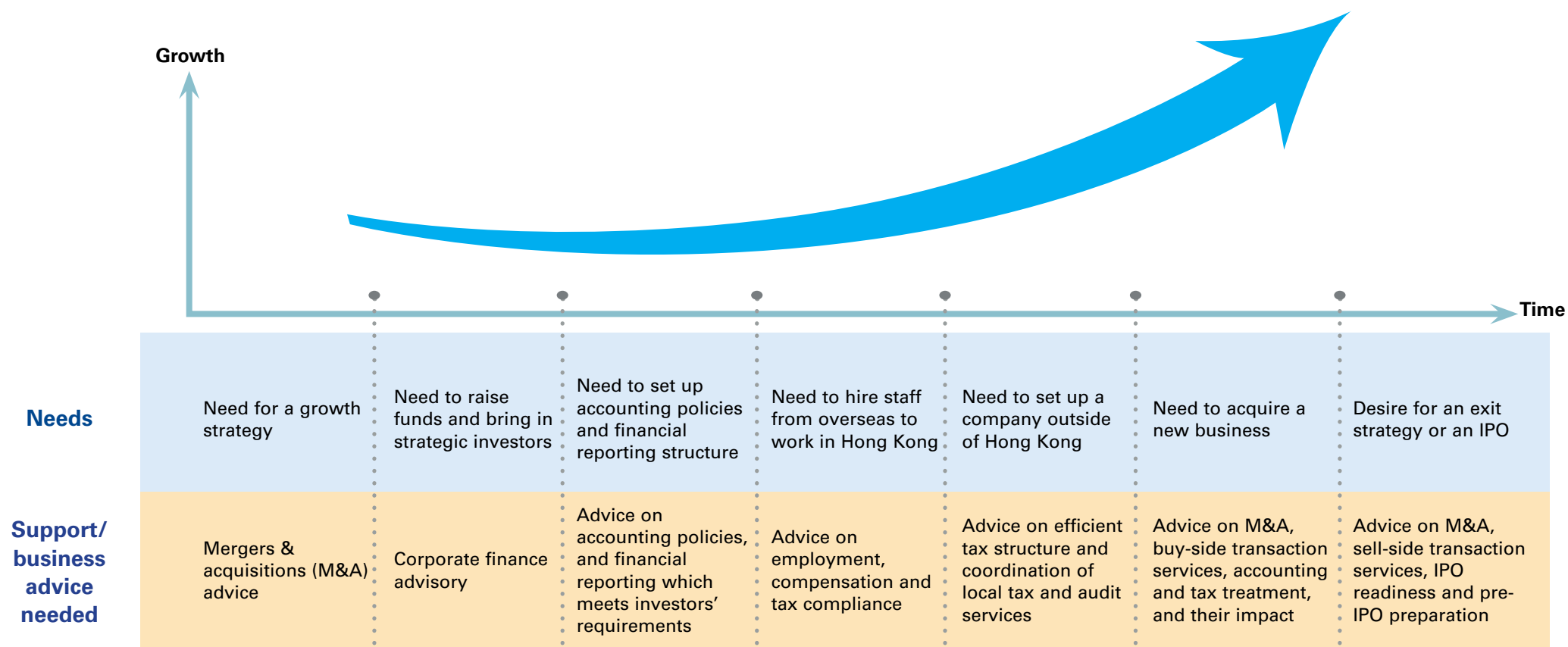


Cyan Sze
Corporate Finance

A start-up's growth cycle – the stages where external support and advice can be beneficial

Your needs and your business will grow over time – at KPMG we can support you along the way.

This graph seeks to indicate some of the typical needs during the start-up journey and how you can access KPMG specialists at the right time.



Registering your business

1 Decide where you want to incorporate

Do you want to start a Hong Kong company or an offshore company?

For Hong Kong: It only takes half a day to be incorporated.

For your business registration outside Hong Kong:

Contact KPMG – as part of a global network of member firms, we have dedicated professionals around the world who can help you decide where you want to incorporate your business.

2 Choose a legal structure

Getting the right legal framework in place and setting up clear systems for tracking the money that is flowing in and out of your business is essential.

Sole trader – You run the business in your own name.

Partnership – Debtors of the partnership can claim against your personal assets if the partnership is in financial difficulty. An added risk is that you are exposed to unlimited joint and several liability for the actions or omissions of your fellow partners.

Limited liability partnership (LLP) – An LLP has a separate legal personality distinct from its members. It can sue and be sued, own property and exercise legal rights in its own name.

Private limited company (Ltd) – This is the most common structure for start-ups. The company has a separate legal personality distinct from its members. It can sue and be sued, own property and exercise legal rights in its own name.

Key considerations:

- Liability
- Governance and day-to-day operations
- Costs
- Further investment and exit

The above-mentioned examples are Hong Kong structures and may not be available everywhere else.

3 Register your business

It takes half a day in Hong Kong

Once you have decided to incorporate a limited company and chosen a company name, you can apply for incorporation with the Hong Kong Companies Registry (CR).

Decide on your company name

For limited companies incorporated in Hong Kong, the company name must not be the same as a name appearing in the index of company names kept by the CR. Free company name search through the Companies Registry's Cyber Search Centre or the Company Search Mobile Services.

Register your documents online

Simply deliver the incorporation documents online at the CR's e-Registry with the correct fees.

- Online applications for company incorporation and business registration can normally be processed within one hour.
- For hard copy applications: the Certificate of Incorporation and Business Registration Certificate will normally be issued within four working days.

You need to register your business with the Business Registration Office of the Inland Revenue Department. You must register within one month of starting the business. For more info, visit InvestHK.

Protecting your intellectual property

You should be the one rewarded for your creativity



Benjamin Pong
Tax

Protecting your intellectual property is imperative to your start-up

Choosing the right location to register your intellectual property could prevent costly legal disputes down the line. Structuring your intellectual property well could also reduce withholding tax obligations and maximise returns once your business expands internationally.

The Hong Kong Government is dedicated to intellectual property rights and protection, and provides dedicated resources to advise lawmakers on policies relating to intellectual property protection as well as enforcement of infringement.

Intellectual property is the collective name for a range of intangible property rights, including trademarks, patents, copyrights, designs and other proprietary knowledge (e.g. layout and design of integrated circuits).

The Hong Kong legal system provides an established platform for protection against unlawful use of the intellectual property you worked hard to create. Hong Kong's position as an international business centre also provides the infrastructure necessary for creative businesses to register and manage intellectual property internationally.

With its expanding tax treaty network and business-friendly tax regime, Hong Kong is also ideal for holding intellectual property. With the right intellectual property holding/licensing structure from Hong Kong, you can maximise after-tax profits.

Some areas that need to be considered in the start-up phase or in the early stages of growth include:

Start-up and early-stage growth considerations

Registration of IP

- Registering trademark, copyrights, etc.
- Deciding which entity will be the owner
- Understanding which entity bears the cost of development/maintenance
- Deductibility of establishment and early phase costs
- Considering potential use/licensing of IP

Intellectual property is the collective name for a range of intangible property rights, including trademarks, patents, copyrights, designs and other proprietary knowledge (e.g. layout and design of integrated circuits).

Managing your tax

Plan ahead to protect value

Hong Kong follows the economic policies of free enterprise and free trade. Although Hong Kong has a simple tax system, tax remains a critical success factor for any business and should not be ignored as you start to grow your business.

If tax is not planned and managed well from inception, it will distract you from your business and erode both profits and value in the future. Early advice can help prevent costly mistakes.

The simple beauty of Hong Kong's tax system

Hong Kong has a simple, straightforward system of taxation, with a low statutory corporate income tax rate. The territorial system of taxation only charges tax on Hong Kong-sourced profits and also does not tax capital gains.

As at 1 November 2014:

- The statutory profits tax (i.e. corporate income tax) rate is 16.5 percent
- The salaries tax rate for individuals is staggered, with a maximum rate of 15 percent
- No capital gains tax or estate tax
- There is no GST/VAT or any other indirect tax
- The property rate is 15 percent (for letting Hong Kong properties)
- There are no withholding taxes on dividends and interest
- The double taxation treaty network is expanding, with 30 double tax agreements signed
- There are customs duties on a very limited range of goods (tobacco, liquor, hydrocarbon oil and methyl alcohol)

Inland Revenue Department
www.ird.gov.hk/eng/tax/bus.htm



Murray Sarelius
 Global Mobility Services, Tax

Some areas that need to be considered in the start-up phase or in the early stages of growth include:

Start-up and early-stage growth considerations	
Structure/corporate tax <ul style="list-style-type: none"> • Plan the set-up of the entity or entities, and business model • Understand tax consequences of providing a return or exit to investors from the proposed structure • Recognise registrations and ongoing corporate tax compliance obligations • Understand state or regional taxes • Be aware of the deductibility of establishment and early phase costs 	People and international workforce <p>Understand the following:</p> <ul style="list-style-type: none"> • Founders tax position and exit strategy • Location and form of employment (or contracting) • Personal tax, salary withholding and social security obligations • Remuneration and equity compensation schemes • Immigration requirements • Global mobility policies and practices
Supply chain/business model <ul style="list-style-type: none"> • Consider the location of elements of the business, supply chain and personnel • Consider the tax consequences, including VAT/GST and sales tax, of operating or selling overseas • Manage effective relief from double taxation • Model cost of income tax and other taxes across jurisdictions for budgets, financial projections and pricing • Customs duties 	Equity ownership plans for Founders/Key employees <ul style="list-style-type: none"> • Review of existing arrangements • Assistance with scheme design, rules and communications • Tax implications for participants and reporting obligations for company across all jurisdictions • Financial reporting implications • Valuation and scenario modelling

Managing your finances

Avoid the no. 1 mistake

Not having enough capital to cover everyday running costs is one of the main reasons why start-ups fail. Therefore, managing your cash flow needs to be a top priority. You need to make sure you have enough capital. But how?



Irene Chu
Head of High Growth Technology &
Innovation Group

Irene's tips on how to manage your working capital

Budgeting – You need to have a firm plan in place that shows how the business will maintain a sufficient cash flow. Performing a cash flow forecast on a regular basis is a useful way to identify your capital needs. Once you understand the financial cycles of your business, you can set aside the right amounts of working capital to meet your current goals and prepare for future ones.

Improve cash flow – To streamline cash flow processes, send out invoices as soon as possible after you have sold a product or delivered a service, and keep the time you have to wait for payment short. Collecting debt is key – the longer it takes for debtors to pay you, the longer you must finance that sale.

Credit terms – Credit terms should be set for customers based on their financial strength and their history. Keep these terms under constant review, as one large bad debt could sink the business. When it comes to paying suppliers, try to stagger your payments to them and negotiate more favourable payment terms so that you can keep cash in the business for as long as possible.

Free up cash locked away in invoices – ‘Invoice factoring’ involves an invoice financier managing your sales ledger and collecting money owed by your customers. The financier will make most of the invoice value (around 85 percent) available to you up front. The remaining money (less interest and fees) will be made available to you once the financier has collected from the customer.

‘Invoice discounting’ – This is when an invoice financier lends you money against your unpaid invoices, but does not manage your sales ledger or collect debts on your behalf. Invoice financiers tend to focus on commercial invoices, so if you sell directly to individual customers, you probably will not be eligible. With invoice discounting, you usually receive an agreed percentage of the invoices’ total value.

Helping you make smarter decisions about your business's future – building a financial model

Financial modelling is a practical tool that can help you make smarter decisions about your business's future.

Bookkeeping and accounting

Regardless of the company structure you adopt, you will have to keep accurate company, accounting and tax records. Penalties for not keeping proper records are high, and disobeying the law is detrimental to your company's reputation.

It is essential to keep track of your expenses and income, and to understand where your business stands financially.

Two methods of accounting:

- Cash accounting – You record transactions when cash is actually exchanged.
- Accrual accounting – You record transactions when they occur rather than when money changes hands.

In practice, most start-ups use cash accounting for internal use and switch to accrual accounting when they prepare their annual statutory financial statements.

Accrual accounting must be used for statutory financial statements to adhere to accounting standards.

What needs to be done	Frequency
<i>Bookkeeping</i>	
<ul style="list-style-type: none"> • Post transactions into accounting system • Pay bills • Chase outstanding debtors • Processing the payroll 	Daily/Weekly
<i>Prepare management accounts</i>	
<ul style="list-style-type: none"> • Profit and loss • Balance sheet • Cash flow forecast 	Monthly/Quarterly
<i>Prepare statutory financial statements</i>	Annually
<i>Calculate corporation tax</i>	Annually
<i>Financial projection, at inception</i>	Annually and when funding is required

To operate your business in/from Hong Kong, you need an independent auditor.

The Companies Ordinance specifies that every company incorporated in Hong Kong must appoint one or more independent auditors. An auditor must be a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and hold a practicing certificate issued by the institute.

You can find a list of CPA firms on the HKICPA website, www.hkicpa.org.hk.



Looking at your talent

We are not just a top employer – we can help you become one too



Michelle Hui
Executive Recruitment

Hiring can be tricky – especially for start-ups. Not only does the lack of a human resources department make recruitment difficult, but you also need to be careful who you hire since staffing has a huge impact on small-scale businesses.

The government-supported job platform in Hong Kong:
Interactive Employment Service
www.jobs.gov.hk

If you need more advice on hiring the right talent, recruitment companies can help.

By making the right staffing decisions, you can make a head start in your business. KPMG's Executive Recruitment service:

- Has a strong global network and established local connections
- Can give insights into candidate profiles such as C-level executives
- Has a track record for placing professionals – not just in finance and insurance, but also in trade, consumer markets and retail and IT among others
- Has experience with finding the right candidates for small and big corporates
- Can establish a sound pre-selection process to match your needs

Pre-selection process to match your needs

- Our search tools include advertising and executive search.
- Our brand name helps to attract high calibre candidates.
- After placing candidates in their respective positions, we keep close contact with them to help them settle into their new company.



Find/Attract



Hire



Onboard



Engage



Manage
Performance



Develop



Manage
Talent



Succession



Exit/Retire



Susie's top list of areas to watch out for as a start-up:

- Understand your vision and goals – this will influence the type of people you recruit
- Plan – job descriptions with clear responsibilities and career paths need to be defined before you start the search
- Selection of candidates – don't just look at their qualifications, their experience can be paramount to your team
- Look for diversity of experience – with a shrinking talent pool due to ageing population, start-ups need to think broadly and incorporate diversity
- Recruiting local vs expat – best results come from a mix of both
- Make sure you're aware of the legal implications – employment laws can be restrictive or even prohibitive
- Remuneration – the number one driver of attraction and retention is remuneration



Susie Quirk
People & Change

Preparing your company for the long term and for growth

Given stakeholder demands for good corporate governance at all companies, we see lenders, insurers, and venture capital and private equity investors increasingly focusing on the governance practices of private companies – many of the Hong Kong Exchanges and Clearing Limited (HKEx) listing requirements that apply primarily to public companies.

It is helpful to consider governance practices mandated for public companies. They are increasingly being adopted voluntarily by many private companies, particularly as they approach their IPOs.

Strong corporate governance is critical to adding organisational value and preparing the company for long-term opportunities.

When entrepreneurs initially focus on building and growing a company around a new product, service or technology, they often do not pay much attention to how their businesses will be governed. Yet, as experienced entrepreneurs have come to recognise, good corporate governance is critical to adding value and preparing the company for short-term challenges and long-term opportunities.

A common misconception about corporate governance is that it is only about the board of directors. In practice, corporate governance encompasses policies, procedures and principles that guide how the company sets strategies, manages risk, monitors its assets and

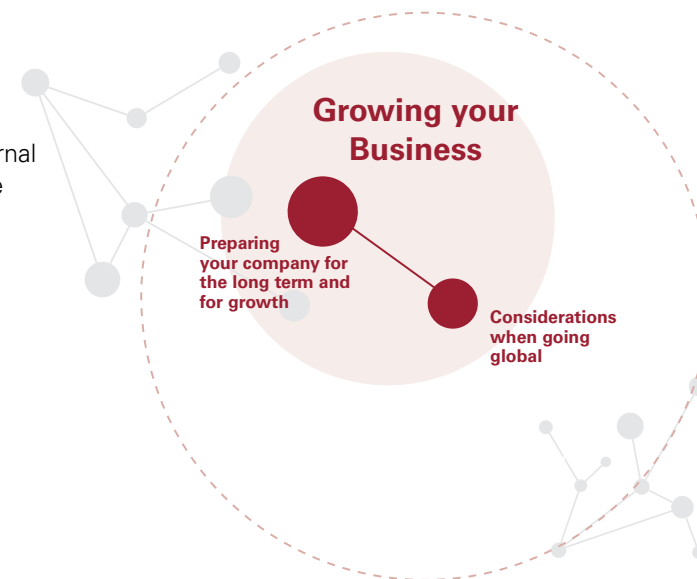
resources, ensures management accountability and financial transparency, satisfies legal and regulatory obligations, and communicates with internal and external stakeholders. Most importantly, corporate governance sets the organisation's tone and culture.

While there is much talk about 'good corporate governance', no single formula is ideal for every company. Factors that determine the level and complexity of corporate governance include the size and scale of the company, the need to access capital markets, the regulatory environment, and the development stage of the business.

Risk management and internal control

HKEx recently issued a consultation paper on risk management and internal control, emphasising the board's responsibility to evaluate the risks it is willing to take to achieve its objectives and to ensure the company has effective internal control systems.

Every organisation should be able to identify the most significant threats to its business and how these threats are being mitigated. Increasing numbers of private companies have established internal audit functions to help assure the board that these risk mitigation activities are effective.





Alva Lee
Internal Audit and Board Advisory

Regulatory compliance & AML/CFT controls

In today's increasingly stringent regulatory environment – with severe repercussions for corporates and individuals for non-compliance – it is crucial that organisations implement an effective, robust and sustainable Anti-money Laundering/Counter Financing of Terrorism (AML/CFT) control framework that complies with guidelines, meets regulatory expectations and is commensurate with respective business models.

An integral part of the AML/CFT framework is the process by which organisations identify and evaluate money laundering and terrorist financing risks. Adequate governance, policies and procedures and an AML & sanctions risk framework to map out risks, such as products/services, customers, geographies and delivery/distribution channels constitute key elements. Without a proper framework, an organisation's control environment may be exposed to unknown weaknesses and key stakeholders may not be able to develop the necessary understanding of risk to execute responsibilities effectively. The absence of effective risk and control assessment protocols will impair an organisation's ability to identify, prioritise, escalate and remediate risk issues impacting the most important parts of managing a business such as strategy setting, business planning, large-scale project implementation, customer retention, maintenance of mission-critical systems and processes, and the launch of new products.

The benefit of independent directors

For small companies – where directors, shareholders and management may essentially be the same – board composition may not be an issue. As a business begins



Kyran McCarthy
AML & Sanctions Services

to grow, however, independent directors can play a critical role in management debates, setting strategy, and supporting and monitoring the CEO.

Independent directors can offer substantial benefits, including:

- Providing broader perspectives on business and financial issues
- Offering expertise in areas such as financing, M&A, emerging technologies, international markets and risk management
- Providing board leadership to help instil the right tone and culture

Independent directors can also play an important role in defining the company's path as it matures and migrates to a more robust governance structure. Listed companies on the HKEx require a minimum of three independent directors and they must represent at least one-third of the board.

Innovation accelerator programme

KPMG is an advisory partner of several accelerator programmes in Hong Kong in which we provide support over programme management and execution.

An accelerator is a mentor-driven, 3-5 month intensive programme designed to support the needs of high potential and fast growth start-ups. The programme includes a unique mix of resources enabling entrepreneurs to build and scale their business rapidly from seed to speed.

During the programme, KPMG provides access to a panel of mentors giving feedback and support to the shortlisted founders, through 1-1 mentoring sessions, workshops and speaker series presentations.

Our mentors offer knowledge and expertise of the industry and provide ongoing guidance for start-ups to nurture and grow their innovation.

We also help build bridges for the start-ups by inviting them to relevant industry events and by opening doors to our corporate clients, government contacts and investors.



KPMG China Innovative Start-up Connect Programme

A unique and innovative approach to connect the start-up community with investors, corporates and professionals via an Online + Offline model

KPMG Innovative Startup Centre in China

KPMG understands the challenges that China-market entrepreneurs face through their journey from an exciting idea to a commercially viable company. Drawing inspiration from the Central Government's "Mass Entrepreneurship and Innovation" initiative, KPMG has organised its global network of resources, industry expertise, and dedicated professional team to establish a global resources connectivity platform.

KPMG Innovative Startup Centre is located in China's Silicon Valley – Beijing Zhongguancun, which is quickly emerging as the epicentre for start-ups in China. Through our Centre, KPMG is committed to promoting enterprise creativity, supporting innovation, and creating a sustainable entrepreneurial environment.



KPMG Start-up Elite Programme

Successful roadmap for 'great-preneurs'

The KPMG Start-up Elite Programme seeks to recruit quality start-ups as members of the Academy and provide training and mentorship. Leveraging KPMG's extensive global network of professionals and clients, we aim to nurture the future 'unicorns' of technology start-ups by accelerating their growth through connectivity to capital, market and industry expertise.

KPMG Elite Programme works hands-on with start-ups by pairing them with mentors and providing resources they need for commercialisation. This competitive programme aims at creating China's next generation entrepreneurial leaders.



KPMG Start-up Community

An Online+Offline model to serve China's start-up community



Beyond the KPMG news and announcements, the KPMG Startup Connect App serves as a one-stop repository for industry information, trends, events, and need-to-know changes in government policy



IOS



Android

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KPMG Global networks

How your access to KPMG can help your business

KPMG: Technology Innovation Center

KPMG recognises the importance of innovation. In 2012 we launched a global Technology Innovation Center to identify and evaluate the impact of future disruptive technologies. The centre connects leading technology thinkers including entrepreneurs, Fortune 500 technology executives, venture capitalists and KPMG member firm professionals. This publication is sponsored by the Technology Innovation Center.

We are looking for tech innovation leaders like you!

Join us today and get access to networks, programmes and exclusive insights.

kpmg.com/techinnovation

KPMG Innovation Lab:

KPMG Innovation Lab is an interactive collaborative workshop space that functions as a 'shopfront,' to profile new capabilities and help clients solve business challenges in new ways. We currently have our labs located across San Francisco, Chicago, New York and Amsterdam, with expansion plans in progress in other regions.



What do we do:

Bring an outside-in perspective to help clients understand signals of change in the marketplace.

Engage clients in Immersion sessions in our labs to help answer key business questions.

Deliver other insightful and complimentary services such as Customer Journey Mapping, the Innovation Factory, Startup Scans, and Custom Trends Indexes.



The Changing Landscape of Disruptive Technologies

The report provides an outlook of emerging technology trends on a global scale, including insights from over 800 leading technology industry visionaries ranging from serial start-up entrepreneurs to Fortune 100 tech industry leaders and venture capitalists.



Venture Pulse: Global Analysis of Venture Funding

KPMG Enterprise's Global Network for Innovative Start-ups and CB Insights (the 'go to' name for insights related to venture capital investment) has launched the 2nd edition of the Venture Pulse Report. The quarterly report analyses the latest global trends in venture capital investment data and provides insights from both a global and regional perspective.

kpmg.com/techinnovation

KPMG Global Network for Innovative Start-ups

From 'seed to speed', we're here throughout your journey

KPMG International's Global Network for Innovative Start-ups has extensive knowledge and experience working in the start-up ecosystem. Our passion and mindset matches the companies we serve: entrepreneurial, hands-on, proactive, visionary and dedicated. Our network spans 31 countries to provide the local support to help you expand your business. Whether you are looking to establish your operations, raise capital, avail of tax incentives, expand abroad or comply with regulatory requirements – we can help.

KPMG Hong Kong's High Growth Technology and Innovation Group is part of the KPMG Global network for Innovative Start-ups. Our group consists of partners across different functions and service lines within the firm in order to provide a wide range of support and services that start-ups need throughout their life cycles. Find out more at www.home.kpmg.com/xx/en/home/services/enterprise.html



Contact us

We are ready to help you energise your business!



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How we add value

We are able to bring a range of perspectives on:

- Innovation
- Change
- Mobility
- Demographics
- Technology

We work with a variety of clients, including start-ups, family owned businesses, NGOs, private equity funds, state-owned enterprises and governments, as well as some of the largest companies in the world.

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