

## Investors rush to fund China tech start-ups



Staff at Beijing-based tech start-up ABD Entertainment. Many such firms have been drawing substantial investments from the government and venture capitalists, even amid China's slowing economy. PHOTO: ABD ENTERTAINMENT

### Amid flow of money, hopeful entrepreneurs warned that innovation is crucial to success

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Former media man Lei Ming has programmers, budding actresses and even an Internet celebrity on staff at his data-driven start-up in Beijing.

His two-year-old firm focuses on using big data and analytics - a relatively new tech sector worldwide - to help consumer brands figure out how to get the best bang for their marketing buck.

"There's an immense amount of data we can glean from weibo accounts," said Mr Lei, referring to the Chinese version of Twitter, which now has 261 million monthly active users.

Through data analysis, he aims to help clients find the most cost-effective ways to sell their products - through celebrity endorsement, product placement or other innovative means, especially on online platforms.

Valued at about 100 million yuan (S\$20 million), the start-up received nearly 10 million yuan in funding last year.

While Mr Lei, 34, is not anxious about revenue for now, he is very clear that he must focus on making his start-up profitable. "It is important that we must be able to make money on our own instead of relying on investors' money," he said.

The next step is to become a major player in entertainment advertising - a market he estimates is worth 100 billion yuan. In three years, he aims to get the firm listed on a stock exchange. Mr Lei's start-up is one of millions that have sprung up in China in recent years amid a tech startup boom. According to a report on the China.org.cn government website, some 4.9 million new companies were set up between March 2014 and May last year, with more than half being Internet firms.

Despite a slowing economy, tech start-ups of all sizes are attracting billions of dollars in investment funds from the government and venture capitalists.

According to research firm Preqin, private investors had poured around US\$26.2 billion (S\$35 billion) into 796 Chinese tech firms as of the middle of this month.

And last year, government-backed venture funds targeted at tech start-ups raised about 1.5 trillion yuan, increasing the amount under management to 2.2 trillion yuan, according to a Bloomberg report. However, regulations and market practices have yet to be finalised, and it is unclear how quickly the funds will be deployed, said the report.

Even though many of these 780 government guidance funds have been around for more than 10 years, the tech investment boom started after Chinese Premier Li Keqiang rolled out his "Internet Plus" initiative in 2014, encouraging innovation and entrepreneurship. This comes as China seeks to move away from a reliance on low-end manufacturing and heavy industries.

With labour and living costs on the rise, China can no longer rely on labour-intensive industries to keep its economy humming, said Ms Jenny Lee, a Shanghai-based venture capitalist who has been investing in Chinese tech firms for the past 15 years. "The old way of throwing labour at tasks is over," she said. "China must change."

It must adopt firms that leverage on technology, for these will help increase efficiency and sometimes replace labour, she added.

But while there is no shortage of money out there, with billions of dollars being poured into thousands of tech start-ups each year, just as many are going belly-up for shortage of funds or failure to commercialise their products.

This is because investors and consumers are becoming more discerning, and it is no longer enough for entrepreneurial hopefuls to just go and copy someone else's idea and hope to thrive, investors and entrepreneurs told The Straits Times.

"These firms need to innovate to compete," said Ms Lee. And innovation can be in terms of the business model, product or technology.

Some venture capitalists, such as Beijing-based James Tan, find Chinese tech firms to be very good at localising new ideas from Silicon Valley and achieving superior results on the mainland.

Still, Mr Peter Fuhrman, the chairman of China First Capital, a Shenzhen-based investment bank and advisory firm, pointed out that while this strategy has helped some of the home-grown tech giants to grow, it is not sustainable.

Successful tech players like Baidu, Alibaba and Tencent benefited greatly from an intellectual property and legal regime that allowed them to copy American business models and intellectual property without punishment, he said.

China's market is also closed to foreign competitors, so that domestic firms can grow and thrive within a walled garden free from outside competition, he added.

However, he noted, it is harder now for China to shield its domestic firms from competition than in the late 1990s, when the tech giants got started, as China has since become a World Trade Organisation member.

"Walled gardens are basically illegal under WTO," he said.

Another problem that could make it hard for China to grow the tech sector is the unique and "occasionally dysfunctional" capital market and initial public offering (IPO) regime, he said.

"This has now made it between difficult and impossible for Chinese tech companies to IPO within China," he said.

Despite the problems, the push towards innovation and entrepreneurship looks set to continue, with more than 1,600 high-tech incubators nurturing start-ups across the nation.

Ms Mao Donghui, the executive director of Tsinghua x-lab, a university-based education platform for start-ups, said China is just beginning to wake up to the need for innovation. For start-ups to succeed, however, being innovative is not good enough - young people also need to know how to do business. For them to have the right combination of innovation and entrepreneurship would "require years of effort, right methods and experience", said Ms Mao.

"It's not that easy to just shout about innovation and entrepreneurship for a year or two, and expect to see results blossom, and affect economic growth. There is still a long way to go," she said.

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