



## INQUIRY INTO SCALING UP IN AI AND CREATIVE TECH

Issued 30 October 2024

ICAEW welcomes the opportunity to comment on the Inquiry into scaling up in AI and creative tech published by the Communications and Digital Lords Select Committee on 4th September 2024, a copy of which is available from this [link](#). However, we note that our own process for preparing a response has been limited by the consultation period being significantly shorter than the 12 weeks recommended by the Cabinet Office in its consultation principles.

For questions on this document please contact the Tech Faculty at [techfac@icaew.com](mailto:techfac@icaew.com).

This response of 23rd October 2024 has been prepared by the ICAEW Tech Faculty. Recognised internationally for its thought leadership, the faculty is responsible for ICAEW policy on issues relating to technology and the digital economy. The faculty draws on expertise from the accountancy profession, the technology industry and other interested parties to respond to consultations from governments and international bodies.

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## EXECUTIVE SUMMARY

1. AI is an enabling technology and whilst this consultation is focussed on SMEs in AI and creative tech, it is worth noting that those SMEs classed as AI SMEs do in fact develop software products such as Large Language Models (LLMs) which are built upon to create tools and products used by other sectors. The impact of their growth is therefore significant across the economy.
2. In deciding how best to support relevant AI SME growth, the UK needs to decide where it wants to focus its AI efforts. AI development includes consideration of hardware, software, and integration as well as wider considerations around skills. The UK should decide which of these areas it wants to put the bulk of the effort, considering the strengths of other key players such as the US and China.
3. SMEs looking to scale in AI face specific challenges including the amount of funding required to support development (particularly in relation to building and training models), complications around the identification and ownership of IP and a lack of regulatory clarity.
4. More generally SMEs in various sectors face challenges in accessing funding, obtaining specific regional support and accessing relevant skills to enable growth. There is a heavy reliance on Venture Capital Funding in the UK and the associated stringent requirements often mean that funding is only available to a very small proportion of more established businesses. Current measures for assessing the success of growth accelerators are also too finance and outcomes focussed and do not consider operational and societal factors enough.
5. Accountants can help by providing advice to growing businesses, and by helping to refine the metrics and performance indicators used to assess the performance of incubators and accelerators.
6. Government initiatives run by chambers of commerce, global partnerships and innovation partnerships, which support UK businesses in scaling overseas are seen as helpful. Further government support is required to provide regulatory clarity, further build innovation ecosystems, provide more targeted regional support, and improve awareness of support initiatives that are available for SMEs.
7. Good examples of regional support and strong innovation systems in other jurisdictions can be seen in many parts of Europe, the US and Hong Kong. These systems consider the wider needs of SMEs including improving the desirability of the locations, providing accommodation and workspace, and joining up the activities of various incubators across regions.
8. Universities play a key role in creating new spin out businesses. They can further support growth by providing more autonomy to these spinouts, providing access to data and providing sandbox environments for testing. They can also help upskill the workforce by providing training that better meets business needs.

## ANSWERS TO SPECIFIC QUESTIONS

**Question 1: What is the economic potential for improving the UK's scale-up landscape, and what are the consequences of failing to capitalise on this?**

9. We are not responding to this question.

**Question 2: What specific barriers do SMEs face when seeking to scale in AI, and in creative technology?**

**a. To what extent are these challenges unique to their respective sectors?**

### SCALE OF FUNDING REQUIRED

10. This is specific to businesses involved in the development of AI models, including Large Language Models. These models are resource intensive and require large investments to meet the costs associated with developing and training such models. Where this investment does occur, it tends to be limited to the global tech giants<sup>1</sup> who have the resources to put towards this.

### INTELLECTUAL PROPERTY (IP) AND COPYRIGHT OWNERSHIP

11. This barrier is relevant for both AI and non-AI SMEs, although it is more acute for those operating in the AI space and in the creative industry.
12. A common pre-condition for investment is that a startup can prove ownership of IP through patents, copyrights etc. This may be tricky for SMEs developing large AI Models or using them in their products, as LLMs are trained on vast amounts of publicly available data.
13. The debate around ownership of creative content and legal and regulatory requirements for the use of such data is ongoing, and concerns have been raised about the use of Generative AI in the creative industry<sup>2</sup>.
14. In 2022 the UK government conducted research which concluded that the UK IP Framework was not a fundamental consideration for investment, and other factors such as availability of skills, reputation of technology hubs and universities, government grants and access to early-stage funding dominated investment decisions<sup>3</sup>. However, this was before the explosion of Generative AI and Large Language Models in Nov 2022, and updated research is required to see how this has changed.
15. Additionally, young businesses can often struggle to identify what to protect as IP. They often can recognise new innovations or new creative work as valuable assets but may find it harder to identify what distinguishes their goods or services from those of competitors, and what can be trademarked, for example – as IP<sup>4</sup>. IP can also depend on rights granted by third parties and on licensing arrangements which may not be easily transferrable if the IP is sold, and which can affect the value of the assets and the potential for investment.

### LACK OF REGULATORY CERTAINTY IN THE UK

16. This factor is specific to AI and impacts SME businesses operating across various industries and sectors. Whilst existing regulations such as data protection apply to AI, they do not address all AI risks. The new government announced its intention to regulate AI but there is no detail of the upcoming regulation. The approach in the previous white paper was to hold off on regulation until AI risk have been properly understood<sup>5</sup>. This lack of clarity is hindering innovation<sup>6</sup> and further clarity can help SMEs to adopt AI in support of growth<sup>7</sup>.

<sup>1</sup> Venture Pulse Q2 2024 (kpmg.com)

<sup>2</sup> <https://www.creatorsrightsalliance.org/ai-and-creative-work>

<sup>3</sup> Intellectual property and investment in Artificial Intelligence - GOV.UK (www.gov.uk)

<sup>4</sup> Long read: Intellectual property | ICAEW

<sup>5</sup> <https://assets.publishing.service.gov.uk/media/65c1e399c43191000d1a45f4/a-pro-innovation-approach-to-ai-regulation-amended-governement-response-web-ready.pdf>

<sup>6</sup> A pro-innovation approach to AI regulation - consultation (icaew.com)

<sup>7</sup> <https://startups.co.uk/news/ai-trust-gap/>

17. AI development and use is however ongoing and could be a contributor to growth. However, this growth may be short lived as:
- SMEs need to sell products to customers and without regulation to promote trust in AI, uptake may be low. 56% of businesses in Vanta's State of Trust study say that they would be more likely to invest in AI if the technology was regulated<sup>8</sup>.
  - SMEs may struggle to comply with regulatory requirements introduced when their products and business models are established. It is often cheaper to embed requirements at the initial stages of product development and reworking requirements into an already established product, process or business model may be costly, and could result in the failure of startups.
  - Growing businesses may look to expand overseas and not meeting the regulatory requirements of markets they are looking to expand to may limit opportunities.

### RESEARCH AND DEVELOPMENT (R&D) TAX RELIEF COMPLIANCE

18. R&D activities are key to enabling growth and scaling of SMEs. Whilst R&D Tax relief is available for companies investing in science and technology related innovations like AI, the monitoring and compliance activities performed by HMRC are having a disproportionate impact on smaller businesses, with some considering moving their R&D activity offshore<sup>9</sup>.
19. This can be remedied through implementation of formal risk assessment procedures to target HMRC resource to the riskiest claims and training and development to address the skills gap within HMRC.

### LOCATION OF INVESTOR FUNDING EVENTS

20. Conversations with ICAEW members have indicated that most investor networking and funding events are held in large cities such as London, making it difficult for small businesses to get in front of investors.
21. In addition, ticket prices are often expensive and there is the additional cost of travel and accommodation. These factors can make attending such events prohibitive, especially if the value of attending is not clearly articulated.

### CHALLENGES ACCESSING AI AND OTHER RELEVANT SKILLS

22. AI can help SMEs in the creative industry to grow by developing new products and identifying new opportunities. However, AI skills are limited, and a lack of skills is stopping the UK more broadly from reaching its full AI potential<sup>10</sup>.
23. Management and financial skills are also critical. Startups may not have a plan for scaling up, considering the business strategy and founder's end plan, people and cultural fit, risk management and cash and financial management. Professional advice, such as from a chartered accountant, can help businesses identify and address missing elements.
24. We repeat our previous call<sup>11</sup> for the reintroduction of Business Growth Vouchers to help small business access the help to address knowledge and skills gaps.

### LACK OF AWARENESS OF FUNDING INITIATIVES

25. Whilst growth funding is available, the visibility and awareness of existing schemes is a challenge. This includes sources of appropriate funding, eligibility criteria (eg, personal guarantees) and the pros and cons of various schemes.
26. This was recognised as an issue for the creative sector, and in 2015, ICAEW together with the Creative Industries Federation, published a free guide<sup>12</sup> to funding opportunities for the

<sup>8</sup> <https://startups magazine.co.uk/article-leaders-need-more-clarity-uk-ai-regulation>

<sup>9</sup> R&D Briefing for MPs (icaew.com)

<sup>10</sup> <https://www.itpro.com/technology/artificial-intelligence/the-uk-has-seismic-ai-potential-says-aws-startup-leader>

<sup>11</sup> <https://www.icaew.com/-/media/corporate/files/technical/icaew-representations/2023/icaew-rep-084-23-call-for-evidence-sme-finance.ashx>

<sup>12</sup> [creative-industries-routes-to-finance.ashx](https://www.icaew.com/-/media/corporate/files/technical/icaew-representations/2015/creative-industries-routes-to-finance.ashx) (icaew.com)

sector, bringing together information on public and philanthropic sources and setting out what the private sector looks for when investing.

**b. What role does access to finance play?**

**VENTURE CAPITAL (VC)**

27. For early-stage business in the tech industry, Venture Capital is an important enabler of growth with significant players such as Facebook and Google having achieved initial growth through VC investment. In Q2 2024, AI continued to be the most attractive investment choice for VCs across jurisdictions, and start-ups focused on large language models and bringing AI to specific industries or functions were particularly popular<sup>13</sup>.
28. However, competition for VC funding is intense. Investors generally want to invest in businesses with a demonstrated potential for significant growth. Many VCs will only invest in one or two businesses out of dozens, or even hundreds of meetings held with entrepreneurs<sup>14</sup>.
29. One SME business that provides an AI tool for energy, engineering, and transport businesses highlighted that VC funding requirements are often too high to meet and can include having assets to put up as security, having an annual recurring revenue over a certain amount or having a fully developed product. For young businesses, this “proving” environment can be a challenge and can make it difficult for small businesses to access VC funding.
30. Obtaining later stage VC funding is also a challenge for UK SMEs. An SME business mentioned that they often see businesses going through several rounds of funding, and once they require funding over £5m, they have to seek funding overseas, or risk failure. A recent study has found that whilst Seed and Series A funding has been going up in the UK, later stage deals are not seeing the same investment and there are limited capital pools available<sup>15</sup>.
31. There is a heavy reliance on venture capital funding in the UK scale-up ecosystem, which by its nature only benefits a small number of more mature startups. The government could look at how to encourage more investment by angel investors (individually or as part of syndicates) perhaps through additional tax measures, similar to the EIS tax relief scheme. The government can also create more opportunities for engagement with business angels.

**Question 3: How effectively are existing organisations (such as UKRI), catalyst programmes, industry schemes and other Government initiatives addressing these issues?**

**a. What outcomes are being achieved?**

32. Some government initiatives have been positive and helpful. ICAEW member feedback has specifically highlighted activities run by chambers of commerce, global partnerships and innovation partnerships, which allow UK businesses to scale overseas.
33. One small business that provides a machine learning platform for energy, engineering, and transport businesses are benefitting from the UK Tech accelerator in Stuttgart which will provide office space and connections to local businesses, helping them to expand to Germany.
34. On schemes that could be improved, members highlighted UKRI which has been helpful in supporting individual innovations by individual organisations, but could be improved to make a bigger impact across the ecosystem (see Question 3 b. below)

<sup>13</sup> [Venture Pulse Q2 2024 \(kpmg.com\)](https://www.kpmg.com/au/issuesandinsights/articlespublications/2024/02/venture-pulse-q2-2024)

<sup>14</sup> [Venture capital | British Business Bank \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/venture-capital)

<sup>15</sup> [Venture Pulse Q2 2024 \(kpmg.com\)](https://www.kpmg.com/au/issuesandinsights/articlespublications/2024/02/venture-pulse-q2-2024)

**b. Are any changes necessary, and how would they work in practice?**

35. ICAEW members have put forward the following proposals based on interactions with UKRI:
- Rather than supporting individual innovations by individual organisations, UKRI should focus on the wider ecosystem and on funding collective systems. UKRI can be involved in creating a thriving ecosystem for funders to be attracted to. An ecosystem with a few businesses at a certain stage of growth, would make it worth the while of funders travelling to these ecosystems. The ecosystems should provide ongoing innovation support, linking scaleups not only to investors, but also to mentors, consultants (such as designers, and developers), training providers, suppliers, customers, and other networks. SMEs spend a lot of time and energy looking for funding and help to make the process easier would be beneficial.
  - UKRI processes are seen as overly bureaucratic and should be restructured and simplified to make support more agile, and to enable SMEs to get easier access to funding.
  - Whilst acknowledging that UKRI's purpose is focussed on research and innovation, small businesses feel that it would be helpful for it to also focus on funding to link scaleups with large businesses who can trial their innovations.
  - UKRI should consider ways in which it can engage and better raise awareness of what it does, and what support is available for SMEs.

**Question 4: What further measures (financial and non-financial) are needed to address barriers to scale in AI, and creative technology?**

36. ICAEW members have proposed the below financial and non-financial actions for consideration.

**MEASURING SUCCESS**

37. Accelerator and incubator performance measures are often too simplistic, and outcomes focussed. They are usually limited to metrics like the number of unicorns, number of public listings, capital raised, or number of Intellectual Property protections registered.
38. Measures should focus on both process and outcomes and consideration given to the use of balanced score cards which consider both financial and operational measures to assess performance and provide a more accurate picture of success.
39. Accountants can help with defining these metrics, which can include the level of customer satisfaction, number of new ideas and the extent of innovation and learning by the accelerator itself.

**REGIONAL SUPPORT**

40. As of 2018, 65% of the UK's accelerators were found in London, with more accelerators in Shoreditch than any other area<sup>16</sup>. A more recent (2023) report found that of the top 25 Startup Incubators & Accelerators in the UK 72% are fully based in London<sup>17</sup>.
41. However, London is only ranked 10th in terms of the factors that create advantageous environments for AI business growth and sustainability<sup>17</sup>. This demonstrates the potential for further investment in accelerators and incubators in other areas of the UK.
42. Creating and empowering more regional bodies to support SME growth can be a key enabler for success. Such bodies can provide tailored support for SMEs, including:
- Organising local events to facilitate interaction between investors and local SMEs
  - Providing local workspaces for small businesses to work from allowing employees and owners to be closer to family and friends and to better juggle work and life commitments.
43. A good example of a regional body is the GSK bioscience incubator in Stevenage.

<sup>16</sup> UK Accelerator Programmes: A Free Report | Beauhurst

<sup>17</sup> AI Business Rankings 2024 – Best UK Locations For AI Business ([businessfinanced.co.uk](https://businessfinanced.co.uk))

## INTERCONNECTIVITY AND FOCUS ON THE WIDER ECOSYSTEM

44. It is not enough for individual success factors to be present; they need to be joined up to achieve the full benefits. 90% Of Startups Fail and the top cause is ideas and products which do not solve any real-world problems<sup>18</sup>. Whilst SME owners are often skilled in specific areas, they do not always have all the necessary skills to create a successful business.
45. These can include leadership, management, operations, finance and risk mitigation. Having multi-faceted incubators and scale-ups with a wide and diverse range of participants can help upskill entrepreneurs and drive a focus on real world solutions and help improve the success rate of small businesses.
46. In Reading, a joint initiative, the Reading Tech Cluster, has emerged to increase connectivity of factors present in the wider region<sup>19</sup>. Tech Nation which unites the tech ecosystem was also cited as a good example.
47. Continued government support for interconnectivity is vital, as is continued support for incubators, accelerators, and catalysts in market towns.

### **Question 5: What role do academic institutions play here, and what can be done to boost commercial links with AI and creative technology?**

48. Academic institutions are good at conducting research and developing ideas which can turn into successful spin out businesses. UK university spinout companies raised 9.54% of all equity funding raised by UK companies in 2023, and UK universities invest more heavily in commercialisation and support for tech businesses than their US counterparts. They also have a very good survival rate with nine out of ten spinouts successful.<sup>20</sup>
49. Going back to the point on regional investment, 74.5% of all spinout investment went to spinouts from universities in London, the Southeast, and East of England with all other regions outside of Scotland combined receiving less than 10%. This indicates the need for an effort to get more widespread regional investment.
50. One notable academic initiative outside of London is the Northern Gritstone which is run jointly by the universities of Leeds, Manchester and Sheffield and provides support for spinouts and growing businesses from the three universities.

## CHALLENGES

51. Discussions with ICAEW members have identified the following challenges:
  - Members working in businesses that have spun out from universities indicate that academic institutions usually have a lot of bureaucracy in their processes, which can sometimes clash with the reality of doing business and slow them down in their growth journey.
  - Academics in the UK are required to spend a certain amount of time on research, teaching and administration, and are often restricted in the amount of time they can spend on scale up activities. It is therefore not straightforward for them to move readily between academia and entrepreneurship.<sup>21</sup>

## RECOMMENDATIONS

52. ICAEW Members have suggested the following actions to boost commercial links with AI and creative technology:
  - To manage the bureaucracy of university processes, spinouts could benefit from having more autonomy in decision making related to running the business, even if the IP and ownership of ideas remains with the academic institutions.

<sup>18</sup> <https://www.forbes.com/sites/neilpatel/2015/01/16/90-of-startups-will-fail-heres-what-you-need-to-know-about-the-10/>

<sup>19</sup> New Reading Tech Cluster aims to connect tech ecosystem and attract investment - The Business Magazine

<sup>20</sup> [https://russellgroup.ac.uk/media/6237/rgbriefing\\_spinouts\\_july24.pdf](https://russellgroup.ac.uk/media/6237/rgbriefing_spinouts_july24.pdf)

<sup>21</sup> [https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent\\_review\\_of\\_university\\_spin-out\\_companies.pdf](https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent_review_of_university_spin-out_companies.pdf)

- Academic institutions can support growing AI businesses by providing access to resources such as data, and sandbox/pilot environments for scaleups to test their products.
  - Academic institutions can function as innovation catalysts by bringing different businesses together to work on developing solutions to problems. They can also assist in building and expanding ecosystems, through federated networks in towns which come together to develop innovative solutions.
  - AI skills and talent shortage is a real challenge for growing businesses and academic institutions can assist by adapting and refining their programmes to ensure that they equip students with the AI skills that are in demand by business.

**Question 6: What can the UK learn from overseas?**

53. There are many lessons to be learnt from initiatives in other jurisdictions:

**ECOSYSTEMS**

54. Cross border collaboration: The Bothnian Arc initiative between Northern Sweden and Finland provides a good example of how different countries can successfully stimulate increased cross-border collaboration and open innovation projects between universities and businesses<sup>22</sup>. The success has been linked to the presence of universities, applied research institutes and governmental research centres, and R&D-intensive companies in the region. The UK can consider developing similar cross-border initiatives with relevant countries to promote the growth of AI and creative tech SMEs.
55. Holistic ecosystem: Boulder Colorado’s innovation ecosystem goes wider than matching investors and entrepreneurs and creates a whole ecosystem including education and skills development, research and development, economic growth, diversity and the desirability of the place itself. This ecosystem attracts well-educated, skilled, and talented people who get greater access to research and capital<sup>23</sup>. The UK can look to emulate this holistic approach to innovation.
56. Joining up of accelerators: The Galician Network of Innovation Accelerators (GAIN) is a federated network of innovation accelerators in smaller towns, with more than half not based in a city, thereby supporting rural and regional innovation. It collaborates with public and private entity acceleration programs, creating “a complete support ecosystem for the acceleration and consolidation of innovative business initiatives” for Galician entrepreneurs<sup>24</sup>. For one successful AI enabled fin-tech start up in the eco-system, the majority of its employees live and work in Galicia, but majority of its clients are in the bigger cities of Madrid and Barcelona, and this has not been a problem for its growth<sup>25</sup>. The UK can consider creating similar regional federated accelerators to provide UK entrepreneurs with a wider breadth of support.
57. Holistic support: The Hong Kong Science and Technology Parks Corporation (HKSTP) Science Park<sup>26</sup> provides office space, research facilities, funding, industry advice, business advice (including regulation and IP etc.) and co-living space for the start-up community. They also provide introductions to major potential clients, and government officials to help commercialise ideas, and will be building a new supercomputer centre for AI training. The UK can take a similar holistic approach to support SMEs in scaling up, considering not only software development, but also AI hardware and integrations.

<sup>22</sup> [https://www.research.lancs.ac.uk/portal/files/309949135/REGION\\_1.PDF](https://www.research.lancs.ac.uk/portal/files/309949135/REGION_1.PDF)

<sup>23</sup> <https://bouldereconomiccouncil.org/boulder-economy/innovation-venture/>

<sup>24</sup> <http://gain.xunta.gal/artigos/370/rede+galega+aceleradoras>

<sup>25</sup> <https://www.bbvspark.com/contenido/en/news/innovation-is-opening-up-in-galicia-an-entrepreneurial-ecosystem-with-huge-potential/>

<sup>26</sup> <https://www.hkstp.org/en/discover/sites/science-park>



## CYBERPORT

58. Cyberport is "Hong Kong's digital technology flagship and incubator for entrepreneurship with over 2,000 members including over 900 onsite and close to 1,100 offsite start-ups and technology companies." It is managed by Hong Kong Cyberport Management Company Limited (wholly owned by the Hong Kong SAR Government) and looks to create a vibrant tech ecosystem by cultivating talent, promoting youth entrepreneurship, supporting start-ups, promoting strategic collaboration with local and international partners, and integrating accelerating digital transformation in public and private sectors.<sup>27</sup> The initiative takes a whole ecosystem approach to support SME growth.
59. A February 2024 report<sup>28</sup> by The Legislative Council Panel on Information Technology and Broadcasting (ITB) looked at the performance of Cyberport. We make the following observations:

### Measures of success

60. Only nine enterprises (0.4% of participants) have acquired unicorn status since 2004, and only one (0.05%) was successfully listed in June 2022 on the Hong Kong Stock Exchange.
61. The community has attracted more than \$38.7 billion of investment since 2010, with 25 start-ups (2.5%) involved in mergers and acquisitions.
62. Cyberport is seen as a successful initiative in many ways. However, if the measures used to identify success are reaching unicorn status or getting listed, then only a small number of businesses have been successful as a result of the scheme. This challenge is seen across the globe.
63. Defining and measuring the right metrics is key to assessing the impact of government schemes. Measures should not focus on purely financial numbers, but should also consider measures that relate to social impact, such as talent building.

### Access to Funding

64. The scheme provides a \$200 million Cyberport Macro Fund ("CMF") providing early financing to participants and promoting development of the venture capital ecosystem. Cyberport also injected \$200 million (providing a total of \$400 million) into the CMF in 2021 and extended its scope to cover Series B or later stage investment. So far, the CMF has invested about \$181 million in 25 companies and attracted over \$1.5 billion of private investment." This means that every dollar invested by Cyberport was able to attract 8.3 dollars of private investment, which is a very good result. However, only 25 companies benefited (1% of the total population). This is also a common challenge across the globe.
65. Cyberport only accept 20-30% of applications, and the initial evaluations are designed to filter out those startups that have flawed business cases including determining whether they solve a real problem or meet a real need. This helps to ensure that participating businesses are successful.

### Export opportunities

66. Hong Kong is very small, and to provide more opportunities for companies, Cyberport has to look beyond its boundaries, and it is "... actively expanding its partnership networks to provide start-ups with a platform for exploring collaboration and business opportunities including by signing Memoranda of Understanding with the Dubai Future Foundation; d-camp (the Korean start-up incubator); Lingang Group in Shanghai; and enterprises such as Huawei and Baidu in China.
67. As the economy becomes more global, developing and extending a Partnership Network with technology entities in other countries is beneficial particularly for startups in AI and creative

<sup>27</sup> [https://cyberport.hk/en/about\\_cyberport/about\\_overview](https://cyberport.hk/en/about_cyberport/about_overview)

<sup>28</sup> [legco.gov.hk/yr2024/english/panels/itb/papers/itb20240227cb1-217-2-e.pdf](https://legco.gov.hk/yr2024/english/panels/itb/papers/itb20240227cb1-217-2-e.pdf)

tech, which have a global market. The recent global success of the Chinese role-playing game "Black Myth: Wukong" is one such example.

### **Skills and Talent**

68. Cyberport has initiated many actions to develop talent including working closely with local universities, providing subsidised placement for internship opportunities at Cyberport startups and organising career fairs. This approach helps to address the skills challenge, and provides not only theoretical skills, but also practical and business-related skills.

### **CHINA - VALUATION ADJUSTMENT MECHANISMS (VAMS)**

69. These agreements (also referred to as Bet on Agreements) relate to future adjustments to a company's valuation to alter the relative shareholding or financial positions of entrepreneurs in relation to those of investors upon the fulfilment of certain conditions or targets. They are prevalent in Chinese markets<sup>29</sup>.
70. VAMs are expected to encourage companies to perform, and they act as contractual protection to investors. However, they present challenges such as unrealistic performance and lack of continuity for businesses post-VAM. Whilst they can help improve performance and achievement of goals, they are not a good approach for all startups, and indeed some startups that could have been successful failed because of such agreements.

<sup>29</sup> <https://blogs.law.ox.ac.uk/business-law-blog/blog/2020/06/contractual-innovation-chinas-venture-capital-market>