

Legislative Council Panel on Commerce and Industry
The Applied Research Fund

INTRODUCTION

This paper provides a quarterly update on the financial position of the Applied Research Fund (ARF) since the last update in April 2001.

BACKGROUND

2. The ARF is a government owned venture capital fund of \$750 million set up in 1993 to provide funding support to technology ventures and research and development (R&D) projects that have commercial potential. The longer term aim is to increase the technology capability and to enhance the competitiveness of local industry, thereby promoting high value added economic development in Hong Kong. The ARF is controlled and administered by the Applied Research Council (ARC), a company wholly owned by the Government and formed specifically for this role.

3. We briefed Members on the application and management of the ARF at the Panel meeting on 11 December 2000⁽¹⁾. At that meeting, the Administration undertook to provide quarterly written reports on the progress of the ARF. The first quarterly report was sent to Members in April 2001. This paper provides the second quarterly update.

4. As we started to engage private sector venture capital firms to be ARF's fund managers in November 1998, the investments of the ARC fall into two categories : those which were processed by the then Industry Department (ID) and funded before the appointment of private sector fund managers, and those which were identified by fund managers and funded after the appointment of fund managers.

LATEST DEVELOPMENT

Projects processed by the then ID

5. The ARC has approved 27 projects in this category with a total amount of \$97 million. During this quarter, two projects have completed satisfactorily. Hence, a total of ten projects are now demonstrating progress. Two projects are still in progress and it is too early to assess their performance.

6. The remaining 15 cases are considered problematic one way or the other. We have provided support in the form of equity injection for four of them and in the form of loans for the other 11 cases. For the four equity cases, we have indicated in

⁽¹⁾ Ref : LC Paper No. CB(1)276/00-01(02)

our previous paper that their chances to grow or improve were not very encouraging and we had reached agreement with one of them to sell our shares at nominal value. In this quarter, we are at an advanced stage of discussions with potential buyers to sell our shares in two other companies at nominal value. Of the 11 loan cases, we have initiated legal actions for four cases and may initiate legal actions in three other cases. Of the four cases that we have initiated legal actions, we are enforcing the Court's favourable ruling in one case and are at an advanced stage of Court proceedings for another.

Projects funded through fund managers

7. Since our last update, the ARC has approved two follow-on investments in one existing project, which together amounted to \$6.37 million. The project is in the information technology sector. As of 30 June 2001, the ARF has supported a total of 18 projects involving a total funding of \$295 million. Details of the 16⁽²⁾ active investments are at Annex A. The sectoral distribution of these funded projects is shown in Annex B.

8. The latest valuation on 31 March 2001 of all the investments managed by our fund managers totalled at 196% of the investment at cost⁽³⁾. This is slightly less than the valuation of 239% as at end December 2000 reported in our last update. This is attributed to the continuing difficult investment climate for high-tech businesses and the fact that one of our investee companies is in financial distress.

ADVICE SOUGHT

9. Members are invited to note the content of this paper.

Commerce and Industry Bureau
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(2) As reported in the last update (Ref: LC Paper No. CB(1)276/00-01(02)), two of our investments have been written off.

(3) The valuations of investee companies are provided by fund managers on the basis of the evaluation of individual investee company in its latest round of financing. If there is no additional round of financing after ARF's investment, our equity will be valued at our investment cost.

Applied Research Fund - List of Active Investments Managed by Fund Managers
(Position as at 30 June 2001)

Information Technology

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
QuotePower Information Ltd.	AsiaTech Ventures Ltd	Provision of online financial information and real-time electronic trading	8.00
InfoTalk Corporation Ltd.	Walden Technology Management (HK) Ltd	Automatic speech recognition	24.07
I-Quest Corporation (HK) Limited	AsiaTech Ventures Ltd	Highspeed Internet access for the hospitality industry, portal developer	15.51
ecVision Limited	Walden Technology Management (HK) Ltd	Business-to-business e-commerce software and services	27.24
LECCO Technology Ltd.	Walden Technology Management (HK) Ltd	Software tools	24.59
Wisers Information Ltd.	Walden Technology Management (HK) Ltd	Electronic aggregation and distribution of Chinese language-based content	11.67
Inlooktech.com Ltd.	AsiaTech Ventures Ltd	Enterprise Resource Planning solutions	7.79
iASPEC Technologies Limited (formerly Uni-tech Systems Engineering Ltd.)	AsiaTech Ventures Ltd	System integration, application hosting services	15.55

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
WebPro Ltd.	Walden Technology Management (HK) Ltd	Internet and e-commerce technologies for the Asian electronics components industry (internet & e-commerce)	15.60
I-Security Solutions Ltd.	Walden Technology Management (HK) Ltd	To develop and market encryption and authentication tools to facilitate e-commerce functions	10.82
Linux Center (HK) Limited	Softech Investment Management Company Limited	To provide web-related and software solutions based on the Linux platform	0.68
Total			161.52

Telecommunications

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
Wafer Systems Holdings Ltd.	HSBC Private Equity Technology Ltd	Data networking	46.50
Unitech Networks Ltd.	Walden Technology Management (HK) Ltd	Internet/Intranet system integrator	11.63
Continuous Technologies International Ltd.	AsiaTech Ventures Ltd	Computer telephony applications	16.15
Entone Technologies	Softech Investment Management Co. Ltd	Broadband Video Streaming	7.8
Total			82.08

Electronics

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
NSM Technology Ltd.	AsiaTech Ventures Ltd	Original design manufacturer of telecom equipment	15.58
Total			15.58

Sectoral Distribution of Projects Funded after the Engagement of Fund Managers

