

**Legislative Council Panel on Commerce and Industry**  
**The Applied Research Fund**

## **INTRODUCTION**

This information paper provides an update on the financial position of the Applied Research Fund (ARF) for the period of 1 June to 31 August 2006.

## **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 projects that have commercial potential. The longer term aim is to increase the technology capability and to enhance the competitiveness of the 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. With ARC engaging private sector venture capital firms as the ARF's fund managers since 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.

4. The Administration briefed Members on the application and management of the ARF at the Panel meeting on 11 December 2000<sup>1</sup>, and undertook to provide quarterly written reports on the progress of the ARF. This paper provides the twenty-second quarterly report<sup>2</sup>. In February 2003, the Administration also briefed Members on the review of the role and future of the ARF.<sup>3</sup>

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

<sup>2</sup> Previous papers of the same series are LC Paper Nos. CB(1)989/00-01, CB(1)1834/00-01, CB(1)939/01-02, CB(1)1232/01-02(04), CB(1)2185/01-02, CB(1)24/02-03, CB(1)582/02-03, CB(1)1415/02-03, CB(1)2008/02-03, CB(1)2522/02-03(01), CB(1)616/03-04(01), CB(1)1381/03-04(01), CB(1)2431/03-04(01), CB(1)2521/03-04(01), CB(1)598/04-05(01), CB(1)1128/04-05(01), CB(1)1991/04-05(01), CB(1)2303/04-05(01), CB(1)537/05-06(01), CB(1)1086/05-06(01) and CB(1)1864/05-06(01).

<sup>3</sup> Panel paper CB(1)844/02-03(04) discussed by the Panel on 10 February 2003 refers.

5. In April 2004, the Administration reported to the Panel the then latest situation of the ARF in the context of overall development framework for innovation and technology in future<sup>4</sup>. The Administration further briefed the Legislative Council in the context of a public hearing held by the Legislative Council Public Accounts Committee on 10 May 2004 regarding the funding of projects under the ARF as contained in chapter 2 of Report No. 42 of the Director of Audit tabled at the Legislative Council on 21 April 2004. On 23 June 2004, the Legislative Council Public Accounts Committee released its own report on the funding of projects under the ARF. In response, the Chief Secretary for Administration tabled the Government Minute on 20 October 2004.

6. On 18 January 2005, the Administration briefed Members on the review result of the ARF<sup>5</sup>. The Panel generally agreed to the winding down of the ARF as proposed.

## **LATEST DEVELOPMENT**

### **I. Projects processed by the then ID**

7. The ARC has approved 27 projects in this category with a total amount of \$97 million. As reported in the last update, among these 27 projects, ARC has exited from 22 projects in the form of loans fully repaid (9 cases), loans written off (8 cases), equities sold at net asset value (1 case), equities sold at nominal value (3 cases) and company dissolved (1 case). As a result, ARC has written off a total of some \$33.2 million or 34.2% of the total approved amount.

8. Among the remaining five projects, ARC has provided support in the form of equity injection for one case and in the form of loans for the other four cases. During this reporting period, for the former case ARC is still holding shares in the concerned company. As regards the four loan cases, the companies/guarantors of three cases were repaying the loan, and legal proceedings were being taken for the remaining one case.

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<sup>4</sup> Paper ref. : CB(1)1470/03-04(05) titled "Strategic Framework for Innovation and Technology Development" discussed by the Panel on 13 April 2004 refers.

<sup>5</sup> Paper ref. : CB(1)690/04-05(04) titled "New Strategic Framework for Innovation and Technology Development and Review of the Applied Research Fund" discussed by the Panel on 18 January 2005 refers.

## **II. Projects funded through fund managers**

9. Since the last update, the ARC has not made any new or follow-on investment (with the expiry of investment period for new investment and follow-on investment in end March 2005 and end March 2006 respectively). As at end August 2006, there were a total of 25 projects supported by the ARF through fund managers with approved funding of \$410 million. Details of the 14 active investments<sup>6</sup> and their sectoral distribution are at **Annex**.

10. The latest valuation as at 30 June 2006 of all the 25 investments made by the fund managers stood at 41% of the corresponding total investment costs. The main reasons for the below-cost valuation remain to be that our fund managers are still prudent in the valuation in view of the financial difficulties confronting some investee companies and the generally sluggish investment climate for technology businesses.

## **CONCLUSION**

11. Members are invited to note this paper.

**Commerce, Industry and Technology Bureau**  
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<sup>6</sup> We reported in the paper of December 2000 (Ref: LC Paper No. CB(1)276/00-01(02)) that two investments had been written off, in the update of January 2002 (Ref: LC Paper No. CB(1)939/01-02) that one investee company had been wound up, in the update of June 2002 (Ref: LC Paper No. CB(1)2185/01-02) that one investee company was in the process of liquidation, in the update of October 2002 (Ref: LC Paper No. CB(1)24/02-03) that one investee company was in the process of liquidation, in the update of June 2003 (Ref: LC Paper No. CB(1)2008/02-03) that the shares in an investee company were sold at nominal value, in the update of July 2004 (Ref: LC Paper No. CB(1)2431/03-04(01)) that the shares in an investee company was sold to a NASDAQ-listed company, in the update of March 2005 (Ref: LC Paper No. CB(1)1128/04-05(01)) that the shares in another company were sold, in the update of December 2005 (Ref: LC Paper No. CB(1)537/05-06(01)) that we had redeemed and sold the shares in another two company, and in the update of June 2006 (Ref: LC Paper No. CB(1)1864/05-06(01)) that another investee company had been wound up. This means a loss of a total of \$154.41 million or 37.7% of the approved funding. Hence, a total of 14 investments are still active.

**List of Active Investments Approved by the Applied Research Council  
after the Engagement of Fund Managers in November 1998  
(Position as at end August 2006)**

**Information Technology**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
ecVision Ltd.	Walden Technology Management (HK) Ltd.	Business-to-business e-commerce software and services	27.24
Wisers Information Ltd.	Walden Technology Management (HK) Ltd.	Electronic aggregation and distribution of Chinese language-based content	33.84
WebPro Ltd.	Walden Technology Management (HK) Ltd.	Internet and e-commerce technologies for the Asian electronics components industry (internet & e-commerce)	15.60
iASPEC Technologies Inc. (formerly Uni-tech Systems Engineering Ltd.)	Softech Investment Management Co. Ltd.	System integration, application hosting services	15.55
QuotePower Information Ltd.	Softech Investment Management Co. Ltd.	Provision of online financial information and real-time electronic trading	8.00

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Emsoft Limited	Softech Investment Management Co. Ltd.	To develop software applications and operating systems for embedded devices based on the Linux platform	7.80
Menfond Electronic Art & Computer Design Co. Ltd.	Softech Investment Management Co. Ltd.	Provision of digital effects and 3D computer animation	8.00

**Total 116.03**

**Biotechnology**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Plasmagene Biosciences Limited	Softech Investment Management Co. Ltd.	To research and develop non-invasive techniques for detection of prenatal and cancerous diseases based on proprietary and licensed technologies	11.70

**Total 11.70**

**Electronics**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Dragonchip Limited	Softech Investment Management Co. Ltd.	To design IC chips with embedded Flash memory for consumer electronics applications	17.94

**Total 17.94**

**Telecommunications**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Wafer Systems Limited	HSBC Private Equity Technology (Asia) Ltd.	Network integration	46.70
Continuous Technologies International Ltd.	Softech Investment Management Co. Ltd.	Computer telephony applications	18.14
CommVerge Solutions Ltd.	Walden Technology Management (HK) Ltd.	Telecom system integration	7.80
iMagic Infomedia Technology Limited	Softech Investment Management Co. Ltd.	Development of computerized public payphones and kiosks	11.00

**Total 83.64**

**Materials**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Vantage Technology Limited	Softech Investment Management Co. Ltd.	Developer and producer of release paper	18.00
<b>Total</b>			<b>18.00</b>

## Sectoral Distribution

