

Legislative Council Panel on Trade and Industry

Applied Research Fund

INTRODUCTION

This paper sets out the latest developments of the Applied Research Fund ("ARF").

BACKGROUND

2. The ARF is a Government-owned venture capital fund to support local technology ventures with commercial potential. It has a capital of \$750 million. It is administered by the Applied Research Council ("ARC"), a private company wholly owned by the Government and specifically formed to hold and manage the ARF¹.

3. In November 1998, the ARC appointed three private sector venture capital firms to be its fund managers. They are Walden Technology Management (HK) Ltd ("Walden"), HSBC Private Equity Management Ltd ("HSBC") and AsiaTech Ventures Ltd ("AsiaTech"). The amounts entrusted to the fund managers are \$300 million each for Walden and HSBC, and \$150 million for AsiaTech². The fund managers are responsible for identifying

¹ For detailed background of the ARF, please refer to LC Paper CB(1)814/98-99.

² For the principal terms of the management agreement with the fund managers, please refer to LC Paper CB(1)1424/98-99.

and evaluating investment proposals, as well as providing management, marketing and networking input to the investee companies. The ARC assumes a supervisory role and ensures that the public mission of the ARF is met.

UPDATE OF THE FUND'S OPERATION

(a) Appointment of the Fourth Fund Manager

4. In October 1999, the ARC concluded a supplemental agreement with HSBC. Under the agreement, the amount entrusted for HSBC's management was reduced from \$300 million to \$50 million. HSBC still manages its existing investment but will not take on any new investments.

5. In November 1999, the ARC invited expression of interest for the management of \$250 million thus released. Following a two-stage selection exercise, Softech Investment Management Ltd. was selected as the fourth fund manager.

(b) Additional Funds For AsiaTech's Management

6. By April 2000, AsiaTech has invested in eight companies, involving funding of over \$120 million. This means that it has committed over 80% of the \$150 million under its management. The ARC has recently

decided to allocate a further \$100 million to AsiaTech. In coming to this decision, the ARC has taken into account the performance of AsiaTech and the cashflow position of the ARF including its projected income³ and expenditure. AsiaTech is thus now managing \$250 million.

(c) Investments

7. By the end of April 2000, the fund managers have altogether received 1 432 enquiries and 857 written business proposals⁴. The ARF has supported 14 technology companies, involving funding of some \$230 million. Among them, seven are start-ups⁵ at the time of investment. The fund managers have also co-invested \$51 million in these companies. Details of the investments are set out at the Annex.

8. With ARF funding, the investee companies are developing their products/services, forming strategic alliances and expanding into overseas markets. We are beginning to see some initial successes in their businesses. Two of the companies won the 1999 Hong Kong Awards for Industry Technological Achievement Awards, while two also won the 1999 Hong Kong Information Technology Excellence Award. Another has been successfully acquired by a listed company. Several others are currently contemplating an

³ All the funds in the ARF remain under the financial control of ARC until they are invested by the fund managers. Projected income includes interest income and return on investments.

⁴ Since companies may approach all the fund managers at the same time, there may be duplication in the enquiries and proposals.

⁵ Start-ups are companies that have been established for not more than three years with less than 50 employees. The fund managers are required to invest in at least five start-ups during the term of the management.

initial public offering on either NASDAQ or the Growth Enterprise Market.

ADVICE SOUGHT

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

Trade and Industry Bureau
May 2000

Annex

Approved Investment of Applied Research Fund

(As at 30.4.2000)

<u>Item No.</u>	<u>Investee Company</u>	<u>Fund Manager</u>	Technology Area	<u>Funding Approved (HK\$)</u>
1.	Property Market Intelligence Ltd.	AsiaTech	Information Technology – provision of online real estate information and analysis	12.35 million
2.	QuotePower Information Ltd.	AsiaTech	Information Technology – provision of online financial information and real-time electronic trading	8 million
3.	Wafer Systems Holdings Ltd.	HSBC	Telecommunication – data networking	46.5 million
4.	InfoTalk Corporation Ltd.	Walden	Information Technology – automatic speech recognition	15.5 million
5.	Unitech Networks Ltd.	Walden	Telecommunication – Internet/ Intranet system integrator	11.63 million
6.	I-Quest Corporation (HK) Limited	AsiaTech	Information Technology – highspeed Internet access for the hospitality industry, portal developer	15.5 million
7.	ecVision Limited	Walden	Information Technology – business-to-business e-commerce software and service provider	13.6 million
8.	Continuous Technologies International Ltd.	AsiaTech	Telecommunication – computer telephony applications	16.15 million
9.	LECCO Technology Ltd.	Walden	Information Technology – software tools	11.65 million
10.	Action Ace.com (HK) Ltd.	AsiaTech	Information Technology – e-commerce, serving niche toy market	32 million

<u>Item No.</u>	<u>Investee Company</u>	<u>Fund Manager</u>	Technology Area	<u>Funding Approved (HK\$)</u>
11.	Wisers Information Ltd.	Walden	Information Technology – electronic aggregation and distribution of Chinese language-based content	7.77 million
12.	Inlooktech.com Ltd.	AsiaTech	Information Technology – enterprise resource planning solutions	5.96 million
13.	Uni-tech Systems Engineering Ltd.	AsiaTech	Information Technology – system integration, application hosting services	15.55 million
14.	NSM Technology Ltd.	AsiaTech	Electronics – original design manufacturer of telecom equipment	15.48 million
			Total :	227.64 million