

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 2010¹.

BACKGROUND

2. The ARF is a government 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 Applied Research Council (ARC), a company wholly owned by the Government, was formed specifically to control and administer the ARF. The investments of the ARC fall into two categories: those which were processed by the then Industry Department (ID) before the engagement of venture capital firms in November 1998 and those which were managed by fund managers thereafter.

3. In 2003, the Administration reviewed the ARF in the context of the overall development framework for innovation and technology² and briefed Members on the result of the review³ on 18 January 2005. The Panel agreed to the winding down of the ARF as proposed. Since then, we have been giving an update to Members on the operation of the ARF on a quarterly basis.

¹ At the Panel meeting on 11 December 2000, the Administration undertook to provide quarterly written reports on the progress of the ARF. This is the 38th quarterly report.

² 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.

³ 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.

LATEST DEVELOPMENT

A. Projects processed by the then Industry Department

4. The ARC approved 27 projects in this category with a total amount of \$97 million. As at end August 2010, 22 projects were exited while 5 projects remained in this category. Among the remaining 5 projects, 1 project is in the form of equity injection where the ARC is still holding the shares. The other 4 projects are in the form of loans where the companies/guarantors of 3 cases are repaying the loans, and legal proceedings are being taken for the remaining one case.

B. Projects funded through fund managers

5. A total of 24 projects were supported by the ARF through fund managers with approved funding of \$392 million. As at end August 2010, 20 projects were exited while 4 are still active. Details of the 4 active investments ----- and their sectoral distribution are at **Annex**.

6. As at 31 August 2010, the latest valuation of all the 24 investments made by the fund managers was 50% of the corresponding total investment costs. In view of the financial difficulties confronting some investee companies and that the investment climate for technology businesses in Hong Kong remains generally sluggish, our fund managers maintain a prudent view on the valuation.

CONCLUSION

7. Members are invited to note this paper.

Commerce and Economic Development Bureau
November 2010

Annex

List of Active Investments Approved by the Applied Research Council after the Engagement of Fund Managers in November 1998 (Position as at end August 2010)

Information Technology

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
Wisers Information Ltd.	Walden Technology Management (HK) Ltd.	Electronic aggregation and distribution of Chinese language-based content	33.84
iASPEC Technologies Inc. (formerly Uni-tech Systems Engineering Ltd.)	Softech Investment Management Co. Ltd.	System integration, application hosting services	15.55
Total			49.39

Electronics

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
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

Investee Company	Fund Manager	Technology Area	Funding Approved (HK\$m)
CommVerge Solutions Ltd.	Walden Technology Management (HK) Ltd.	Telecom system integration	7.80
Total			7.80

Sectoral Distribution

