

For Information

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 1 June to 31 August 2015¹, and the annual report and audited financial statements of the Applied Research Council (ARC) for 2015.

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 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 processed by the then Industry Department before the engagement of venture capital firms in November 1998 and those managed by fund managers thereafter.

3. In 2003, the Administration reviewed the ARF in the context of the development of a strategic framework for innovation and technology² and briefed Members on the result of the review³ in 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 58th quarterly report.

² Paper ref.: CB(1)1470/03-04(05) entitled “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) entitled “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

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 2015, 25 projects were exited while two projects remained in this category. The remaining two projects are in the form of loans.

Projects managed 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 2015, 20 projects were exited while four were still active. Details of the four active investments and their sectoral distribution are at **Annex A**.

6. As at end August 2015, the valuation of all the 24 investments made by the fund managers was 61% of the corresponding total investment costs.

Annual report and audited financial statements

7. The annual report and audited financial statements of the ARC for 2015, which have been prepared in accordance with the Companies Ordinance, are at **Annex B**.

CONCLUSION

8. Members are invited to note this paper.

Innovation and Technology Commission
May 2016

**List of Active Investments Approved by the Applied Research Council
after the Engagement of Fund Managers in November 1998
(Position as at end August 2015)**

Information Technology

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

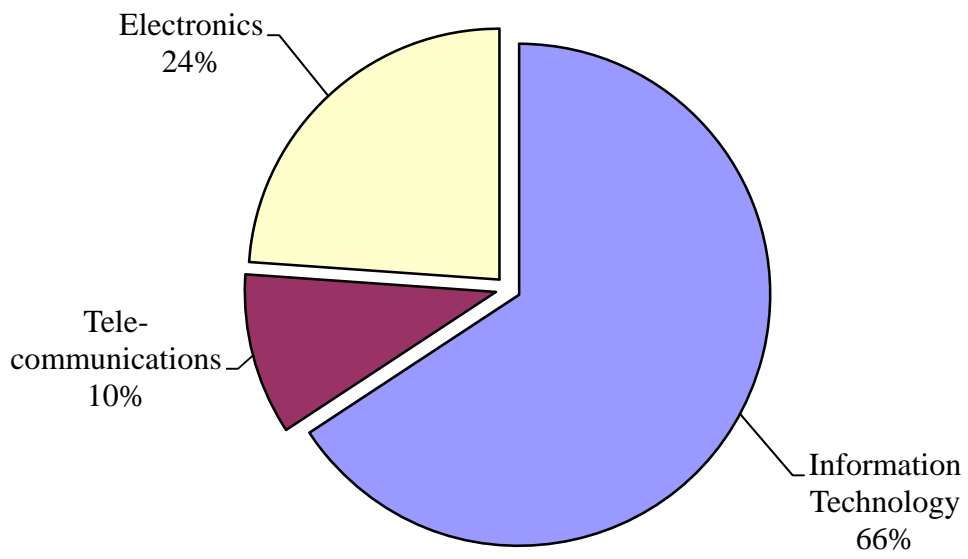
Electronics

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



**THE APPLIED RESEARCH COUNCIL
應用研究局**

**REPORT AND FINANCIAL STATEMENTS
(EXTRACT)***

FOR THE YEAR ENDED 31ST MARCH, 2015

* Business information on investee companies of the Council is not shown.

THE APPLIED RESEARCH COUNCIL
應用研究局

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st March, 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of financial support for applied research and development projects.

RESULTS

The results of the Company for the year ended 31st March, 2015 and the state of the Company's affairs at that date are set out in the financial statements on pages 3 to 25.

BUSINESS REVIEW

The Company is eligible for the reporting exemption under section 359 of the Hong Kong Companies Ordinance (Cap. 622) and it is not required to prepare a business review for the year.

SHARE CAPITAL

Details of the movements in issued share capital of the Company are set out in note 18 to the financial statements.

DIRECTORS

The directors during the financial year and up to the date of this report were:

WONG Yu Pok, Marina

CHEUNG Wai Hing

TSUI Man Ling, Monica

WONG Chi Kwong, Patrick

WONG Wing Chen, Janet (resigned on 15th July, 2015)

WONG Chung Yan, Johann (appointed on 15th July, 2015 and resigned on 19th August, 2015)

CHOI Suk Han, Annie (appointed 19th August, 2015)

WONG Chung Yan, Johann ceased to act as alternate director to WONG Wing Chen, Janet on 15th July, 2015 and appointed as alternate director to CHOI Suk Han, Annie on 8th September, 2015.

There being no provisions in the Company's Articles of Association for the rotation of directors, all directors continue in office.

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THE APPLIED RESEARCH COUNCIL
應用研究局

REPORT OF THE DIRECTORS

Continuation - 2 -

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS INVOLVED IN THE COMPANY

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDITORS

Ting Ho Kwan & Chan, Certified Public Accountants retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ting Ho Kwan & Chan, Certified Public Accountants as the Company's auditors is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

WONG Yu Pok, Marina
Director

Hong Kong, 13rd November, 2015

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE APPLIED RESEARCH COUNCIL 應用研究局
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of The Applied Research Council 應用研究局 (the "Company") set out on pages 3 to 25, which comprise the statement of financial position as at 31st March, 2015, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE APPLIED RESEARCH COUNCIL 應用研究局
(incorporated in Hong Kong with limited liability)

Continuation - 2 -

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st March, 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)
9th Floor, Tung Ning Building,
249-253 Des Voeux Road Central,
HONG KONG
13rd November, 2015

THE APPLIED RESEARCH COUNCIL
應用研究局

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST MARCH, 2015

	Notes	2015 HK\$	2014 HK\$
Turnover	6	1,655,657	1,626,054
Other income	7	1,105,368	1,107,903
Management fee for fund managers		(431,089)	(436,107)
Administrative and other operating expenses		<u>(301,035)</u>	<u>(592,193)</u>
Profit before taxation	8	2,028,901	1,705,657
Taxation	9	<u>-</u>	<u>-</u>
Profit for the year/total comprehensive income for the year		<u><u>2,028,901</u></u>	<u><u>1,705,657</u></u>

The notes on pages 7 to 25 are an integral part of these financial statements.

THE APPLIED RESEARCH COUNCIL
應用研究局

STATEMENT OF FINANCIAL POSITION AS AT 31ST MARCH, 2015

	Notes	2015 HK\$	2014 HK\$
Non-current assets			
Available-for-sale financial assets	11	<u>36,838,219</u>	<u>36,838,219</u>
Current assets			
Loans and other receivables	12	4,462,450	5,688,291
Fixed bank deposits	13	49,986,536	59,846,570
Cash and cash equivalents	14	<u>169,784,721</u>	<u>156,671,115</u>
		<u>224,233,707</u>	<u>222,205,976</u>
Current liabilities			
Other payables and accruals	15	177,724	178,894
Conditional grant	16	<u>150,000,000</u>	<u>-</u>
		<u>150,177,724</u>	<u>178,894</u>
Net current assets		<u>74,055,983</u>	<u>222,027,082</u>
Total assets less current liabilities		110,894,202	258,865,301
Non-current liability			
Conditional grant	16	<u>-</u>	<u>150,000,000</u>
Net assets		<u>110,894,202</u>	<u>108,865,301</u>
Capital and reserves			
Share capital	18	175,000,000	175,000,000
General reserve		49,980,000	49,980,000
Accumulated losses		<u>(114,085,798)</u>	<u>(116,114,699)</u>
Total equity		<u>110,894,202</u>	<u>108,865,301</u>

The financial statements were approved and authorised for issue by the Board of directors on 13rd November, 2015 and are signed on its behalf by:

WONG Yu Pok, Marina
DIRECTOR

CHOI Suk Han, Annie
DIRECTOR

The notes on pages 7 to 25 are an integral part of these financial statements.

THE APPLIED RESEARCH COUNCIL 應用研究局

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST MARCH, 2015

	Share capital HK\$	General reserve HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1st April, 2013	175,000,000	49,980,000	(117,820,356)	107,159,644
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>1,705,657</u>	<u>1,705,657</u>
Balance at 31st March, 2014	175,000,000	49,980,000	(116,114,699)	108,865,301
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>2,028,901</u>	<u>2,028,901</u>
Balance at 31st March, 2015	<u><u>175,000,000</u></u>	<u><u>49,980,000</u></u>	<u><u>(114,085,798)</u></u>	<u><u>110,894,202</u></u>

The notes on pages 7 to 25 are an integral part of these financial statements.

General reserve represents the net amount of contribution received from shareholders over the nominal value of shares allotted and conditional grant obtained.

THE APPLIED RESEARCH COUNCIL
應用研究局

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST MARCH, 2015

	2015	2014
	HK\$	HK\$
Operating activities		
Profit before taxation	2,028,901	1,705,657
Adjustments for:		
Impairment losses on available-for-sale financial assets written back	(931,320)	(933,855)
Impairment losses on loans and other receivables written back	(174,048)	(174,048)
Interest income	(1,655,657)	(1,626,054)
Allowance for impairment losses of bad and doubtful debts	-	212,770
	<u>(732,124)</u>	<u>(815,530)</u>
Operating cash flows before changes in working capital		
Other receivables	20,000	97,840
Other payables and accruals	(1,170)	(65,984)
	<u>(713,294)</u>	<u>(783,674)</u>
Net cash used in operating activities		
Investing activities		
Decrease in fixed bank deposits	9,860,034	145,941,670
Proceeds from available-for-sale financial assets	1,012,811	1,035,159
Bank interest received	1,582,750	1,990,073
Loans and interest repayment received	1,371,305	424,048
	<u>13,826,900</u>	<u>149,390,950</u>
Net cash generated from investing activities		
Net increase in cash and cash equivalents	13,113,606	148,607,276
Cash and cash equivalents at beginning of the year	<u>156,671,115</u>	<u>8,063,839</u>
Cash and cash equivalents at end of the year (note 14)	<u><u>169,784,721</u></u>	<u><u>156,671,115</u></u>

The notes on pages 7 to 25 are an integral part of these financial statements.

THE APPLIED RESEARCH COUNCIL
應用研究局

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

1 GENERAL INFORMATION

The Applied Research Council 應用研究局 (the “Company”) is a private limited liability company incorporated in Hong Kong. The address of its registered office and principal place of business is changed to 21/F., West Wing, Central Government Offices, 2 Tim Mei Avenue, Tamar, Hong Kong. Its principal activity is provision of financial support for applied research and development projects.

2 STATEMENT OF COMPLIANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS

The Company qualifies for the reporting exemption under section 359(1)(a) of the Hong Kong Companies Ordinance (Cap. 622). The Company is therefore entitled to prepare and present its financial statements in accordance with the Small and Medium-Sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). However, the directors selected the Company’s financial statements for the year ended 31st March, 2015 to be prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which also include Hong Kong Accounting Standards (“HKAS”) and Interpretations (“Int”) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies adopted by the Company is set out in note 3.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Company. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

The measurement basis used in preparing the financial statements is historical cost. The accounting policy on financial assets is summarised in note 3(c).

(b) Foreign currency translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. At the end of each reporting period, monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at that date. Exchange gains and losses are recognised in profit or loss.

(c) Financial assets

Regular purchases and sales of financial assets are recognised on the trade date when the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of the investments other than trading securities, transaction costs. At the end of each reporting period, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired, such as a significant or prolonged decline in the fair value of an investment in an equity investment below its cost. Financial assets are further categorised into the following classifications for the measurement after initial recognition.

(i) Loans and accounts receivables

Loans and accounts receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are stated in the statement of financial position at fair value. Gain or loss on fair value changes of available-for-sale financial assets is recognised directly in equity in the fair value reserves, except for impairment losses and, in the case of monetary items such as debt securities, which are recognised directly in profit or loss.

When the available-for-sale financial assets are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where the available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(c) Financial assets - continued

(ii) Available-for-sale financial assets - continued

When a decline in the fair value of an available-for-sale financial assets has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial assets has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial assets previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. Any subsequent increase in the fair value of such investment is recognised directly in equity. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Impairment losses are written off against the corresponding investments directly.

Investments in unquoted equity instruments whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less any impairment losses. If there is objective evidence that an impairment loss has been incurred on such instrument, the amount of impairment loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar instrument. Such impairment losses are not reversed.

Fair value of an instrument on initial recognition is normally the transaction prices, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investments.

After initial recognition, the fair value of an investment quoted in an active market is based on the current bid price and, for investments not quoted in an active market, the Company establishes the fair value of such investment by using a valuation technique.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(e) Income tax

Income tax (if any) for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax (if any) is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities (if any) arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities (if any), and all deferred tax assets (if any) to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(e) Income tax - continued

The limited exceptions to recognition of deferred tax assets and liabilities (if any) are those temporary differences arising from goodwill (if any) not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Company controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset (if any) is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends (if any) are recognised when the liability to pay the related dividends is recognised.

Current tax balances (if any) and deferred tax balances (if any), and movements therein (if any), are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Provided it is probable that the economic benefits will flow to the Company and the revenue and the costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Interest income

Interest income is recognised as it accrues using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

4 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRS and amendments to HKFRS that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting

The above developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods of the Company.

The Company has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 21).

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's management makes assumptions, estimates and judgements in the process of applying the Company's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRS. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

a. Key assumption and other key sources of estimation uncertainty

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company uses discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets.

b. Critical judgement in applying the Company's accounting policies

(i) Impairment losses on available-for-sale financial assets

The Company follows the guidance of HKAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(ii) Impairment losses on loans and accounts receivables

The policy for impairment losses on loans and accounts receivables of the Company is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each loan borrowers. If the financial conditions of loan borrowers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

6 TURNOVER

Turnover represents interest income received and receivable as follows:

	2015	2014
	HK\$	HK\$
Interest income from bank deposits	1,574,166	1,524,750
Interest income from loan receivables and debt securities	<u>81,491</u>	<u>101,304</u>
Total revenue	<u><u>1,655,657</u></u>	<u><u>1,626,054</u></u>

7 OTHER INCOME

	2015	2014
	HK\$	HK\$
Impairment losses on loans and other receivables written back	174,048	174,048
Impairment losses on available-for-sale financial assets written back	<u>931,320</u>	<u>933,855</u>
	<u><u>1,105,368</u></u>	<u><u>1,107,903</u></u>

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2015	2014
	HK\$	HK\$
Auditors' remuneration	46,000	42,500
Allowance for impairment losses of bad and doubtful debts	-	212,770
Exchange loss	<u>44,000</u>	<u>20,790</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

9 TAXATION IN THE INCOME STATEMENT

No provision for Hong Kong profits tax is made in the financial statements in respect of the profit for the year as the Company has sufficient tax losses brought forward available to offset the current year's estimated assessment profits (2014: Nil).

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2015	2014
	HK\$	HK\$
Profit before taxation	2,028,901	1,705,657
Tax calculated at applicable tax rate of 16.5% (2014: 16.5%)	334,769	281,433
Tax effect of non-taxable income	(259,737)	(251,583)
Tax effect of non-deductible expense	7,260	3,430
Tax effect of utilisation of previously unrecognised tax losses	(82,292)	(33,280)
Taxation charge	-	-

10 DIRECTORS' REMUNERATION

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the year (2014: Nil).

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015	2014
	HK\$	HK\$
Unlisted equity securities, at cost	15,554,000	15,554,000
Less: Impairment loss	15,515,368	15,515,368
	<u>38,632</u>	<u>38,632</u>
Unlisted debt securities, at cost	45,027,061	45,958,381
Less: Impairment loss	8,227,474	9,158,794
	<u>36,799,587</u>	<u>36,799,587</u>
	<u>36,838,219</u>	<u>36,838,219</u>

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11 AVAILABLE-FOR-SALE FINANCIAL ASSETS - CONTINUED

The investment in unlisted equity and debt securities are measured at cost less any accumulated impairment losses at the end of each reporting period because they do not have a quoted market price on active market, the range of reasonable fair estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

The maximum exposure to credit risk at the end of the reporting period is the carrying amounts of the debt securities classified as available-for-sale financial assets.

As at 31st March, 2015 the Company's available-for-sale financial assets were individually determined to be impaired on the basis of a prolonged decline in their fair value below cost which indicated that the cost of Company's investments in them may not be recovered. Impairment losses on these financial assets were recognised in profit or loss in accordance with the policy set out in note 3(c)(ii).

12 LOANS AND OTHER RECEIVABLES

	2015	2014
	HK\$	HK\$
Loans and interest receivables	11,085,325	12,456,630
Less: Allowance for impairment losses	6,774,209	6,948,257
	<u>4,311,116</u>	<u>5,508,373</u>
Bank interest receivables	151,334	159,918
Other receivables	-	20,000
	<u>4,462,450</u>	<u>5,688,291</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

12 LOANS AND OTHER RECEIVABLES - CONTINUED

The directors consider that the carrying amounts of loans and other receivables approximate to their fair values at 31st March, 2015 as the impact of discounting is not significant.

As at 31st March, 2015, loan and interest receivables of HK\$4,311,116 (2014: HK\$5,508,373) were past due but not impaired.

Movements of the allowance for impairment losses of bad and doubtful debts are as follows:

	2015	2014
	HK\$	HK\$
As at 1st April	6,948,257	6,909,535
Impairment loss recognised	-	212,770
Reversal of allowance previously recognised	(174,048)	(174,048)
As at 31st March	<u>6,774,209</u>	<u>6,948,257</u>

13 FIXED BANK DEPOSITS

	2015	2014
	HK\$	HK\$
Bank deposits with maturity greater than three month	<u>49,986,536</u>	<u>59,846,570</u>

The effective interest rate on bank deposits at 31st March, 2015 was ranging from 0.85% to 0.9% (2014: 0.05% to 0.9%) per annum. The deposits were due within six months after the end of the reporting period.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

13 FIXED BANK DEPOSITS - CONTINUED

Fixed bank deposits shown in the statement of financial position include the following amount denominated in the currency other than the Company's functional currency, HK dollars:

	2015	2014
US Dollars	<u>1,485,074</u>	<u>1,472,358</u>

14 CASH AND CASH EQUIVALENTS

	2015 HK\$	2014 HK\$
Cash at banks	10,369,065	8,659,292
Short-term bank deposits	<u>159,415,656</u>	<u>148,011,823</u>
	<u>169,784,721</u>	<u>156,671,115</u>

The effective interest rate on short-term bank deposits was ranging from 0.05% to 0.90% (2014: 0.05% to 0.75%) per annum. These deposits have an average maturity of 1 month (2014: 1 month).

Included in cash and cash equivalents in the statement of financial position are the following amount denominated in a currency other than the Company's functional currency, HK dollars:

	2015	2014
US Dollars	<u>4,062,141</u>	<u>3,948,466</u>

15 OTHER PAYABLES AND ACCRUALS

	2015 HK\$	2014 HK\$
Accrued expenses	177,324	178,494
Others	<u>400</u>	<u>400</u>
	<u>177,724</u>	<u>178,894</u>

The carrying amounts of other payables approximate their fair values at 31st March, 2015 as the impact of discounting is not significant.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

16 CONDITIONAL GRANT

The conditional grant under the Applied Research Fund is obtained from the Government of the Hong Kong Special Administrative Region (the “HKSAR”) and is used to invest in technology venture and applied research and development projects that have the potential to yield commercially exploitable results. It is subject to claw-back by the HKSAR under exceptional circumstances, so that the full amount of this grant or any part thereof may be recovered by the Financial Secretary if the Company has built up cash surplus for which it has no further purpose. The full amount of this grant is to be repaid within one year from the end of the reporting period.

The fair value of conditional grant is equal to its carrying amount as the impact of discounting is not significant.

17 DEFERRED TAXATION

Deferred tax asset has not been recognised in respect of the following item:

	2015	2014
	HK\$	HK\$
Tax losses	<u>264,973,815</u>	<u>265,472,550</u>

The Company has not recognised deferred tax asset in respect of unused tax losses as it is not probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised. The tax losses do not expire under current tax legislation.

18 SHARE CAPITAL

	2015		2014	
	No. of shares	Amount HK\$	No. of shares	Amount HK\$
Issued and fully paid:				
Ordinary shares at beginning and end of the year	<u>175,000,000</u>	<u>175,000,000</u>	<u>175,000,000</u>	<u>175,000,000</u>

19 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31st March, 2015 to be Financial Secretary Incorporated, which is incorporated in Hong Kong.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(A) Financial instruments

The Company has classified its financial instruments in the following categories:

	Loans and receivables HK\$	Available- for-sale financial assets HK\$	Total HK\$
Assets as per statement of financial position 31st March, 2015			
Available-for-sale financial assets	-	36,838,219	36,838,219
Loans and other receivables	4,462,450	-	4,462,450
Fixed bank deposits	49,986,536	-	49,986,536
Cash and cash equivalents	169,784,721	-	169,784,721
Total	<u>224,233,707</u>	<u>36,838,219</u>	<u>261,071,926</u>
31st March, 2014			
Available-for-sale financial assets	-	36,838,219	36,838,219
Loans and other receivables	5,688,291	-	5,688,291
Fixed bank deposits	59,846,570	-	59,846,570
Cash and cash equivalents	156,671,115	-	156,671,115
Total	<u>222,205,976</u>	<u>36,838,219</u>	<u>259,044,195</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

(A) Financial instruments - continued

	Financial liabilities at amortised costs	Total
	HK\$	HK\$
Liabilities as per statement of financial position		
31st March, 2015		
Other payables and accruals	177,724	177,724
Conditional grant	150,000,000	150,000,000
Total	<u>150,177,724</u>	<u>150,177,724</u>
31st March, 2014		
Other payables and accruals	178,894	178,894
Conditional grant	150,000,000	150,000,000
Total	<u>150,178,894</u>	<u>150,178,894</u>

(B) (I) Financial risk factors

The main purpose of the Company's financial instruments in listed and unlisted equity and debts investments in Hong Kong and loans to those investee companies is to provide financial support for applied research and development projects. The other major financial assets held by the Company is cash at banks.

The main risks associated with the financial instruments and assets of the Company are set out below:

(a) Market risk

Market risk is the risk that the value of financial assets will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual assets or factors affecting all assets in the market.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

(B) (I) Financial risk factors - continued

(a) Market risk - continued

(i) Foreign currency risk

The Company is exposed to foreign currency risk arising from loans and accounts receivables and cash and cash equivalents denominated in United States dollars.

No sensitivity analysis for the Company's exposure to currency risk is prepared since the management's assessment of reasonably changes in value of the HK dollar against the US dollars is insignificant.

(ii) Cash flow and fair value interest rate risk

The Company's interest rate risk resulted from timing differences in the repricing of interest bearing assets. Major interest bearing assets of the Company are short-term bank deposits.

The Company monitors its interest rate risk through management of maturity profile and choice of fixed or floating interest rates.

Besides, the Company has no significant interest bearing borrowing during the year.

(b) Credit risk

The Company's credit risk is primarily attributable to fixed bank deposits, cash and cash equivalents, available-for-sale debt securities and loans and accounts receivables.

The credit risk on bank balances and bank deposits is considered negligible, since the counterparties are reputable banks with good external credit ratings.

In order to minimise the credit risk arising from loans and accounts receivables and debt securities, the management of the Company has appointed fund managers to monitor the investments. In addition, the Company reviews the recoverable amount for each individual accounts receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

(B) (I) Financial risk factors - continued

(c) Liquidity risk

Liquidity risk is defined as the risk that funds will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining adequate reserves. The Company performs periodically cash flow forecasts to monitor future cash flows. The bank and loan interest income provides a stable source of funds to the Company. The current financial strength of the Company poses no threat of liquidity to the Company.

(II) Capital risk management

Capital comprises of share capital, general reserve and accumulated losses stated in the statement of financial position. The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year of 2014 and 2015.

The Company manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity ratio analysis.

The Company is not subject to either internally or externally imposed capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2015

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31ST MARCH, 2015

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st March, 2015 and which have not been early adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of their initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
Amendments to HKAS 19	Defined benefit plans: Employee contributions	1st July, 2014
Annual improvements to HKFRSs 2010-2012 Cycle		1st July, 2014
Annual improvements to HKFRSs 2011-2013 Cycle		1st July, 2014
Annual improvements to HKFRSs 2012-2014 Cycle		1st January, 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable method of depreciation and amortisation	1st January, 2016
HKFRS 9	Financial instruments	1st January, 2018