

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 September to 30 November 2017¹, and the annual report and audited financial statements of the Applied Research Council (ARC) for 2017.

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 67th 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 DEVELOPMENTS

Investments processed by the then Industry Department

4. The ARC approved 27 investments in this category with a total amount of \$97 million. As at end November 2017, the ARC had exited 25 investments. The remaining two are in the form of loans and their details are tabulated at **Annex A**.

Investments managed through fund managers

5. A total of 24 investments were supported by the ARF through fund managers with approved funding of \$392 million. As at end November 2017, the ARC had exited 21 investments while three were still active. Details of the three active investments and their sectoral distribution are at **Annex B**.

6. As at end November 2017, the valuation of the 24 investments made by the fund managers was 59% of the corresponding total investment amount. The valuation of all the 51 investments made since 1993 was 60% of the total investment amount.

Annual report and audited financial statements

7. The annual report and audited financial statements of the ARC for 2017, which have been prepared in accordance with the Companies Ordinance, are at **Annex C**.

CONCLUSION

8. Members are invited to note this paper.

Innovation and Technology Commission
March 2018

**List of Investments Approved by the Applied Research Council
before the Engagement of Fund Managers in November 1998
(Position as at end November 2017)**

Electronics

Investee Company	Type of Investment	Technology Area	Funding Approved (HK\$m)
Compass Technology Company Limited	Loan	Research to study the methodology of forming Micro-Via in the manufacturing of multi-layer chip scale package by laser and electro-less plating technologies	10.00

Information Technology

Investee Company	Type of Investment	Technology Area	Funding Approved (HK\$m)
Citron Technologies Ltd.	Loan	Development of a computer aided design software package	2.70

**List of Active Investments Approved by the Applied Research Council
after the Engagement of Fund Managers in November 1998
(Position as at end November 2017)**

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

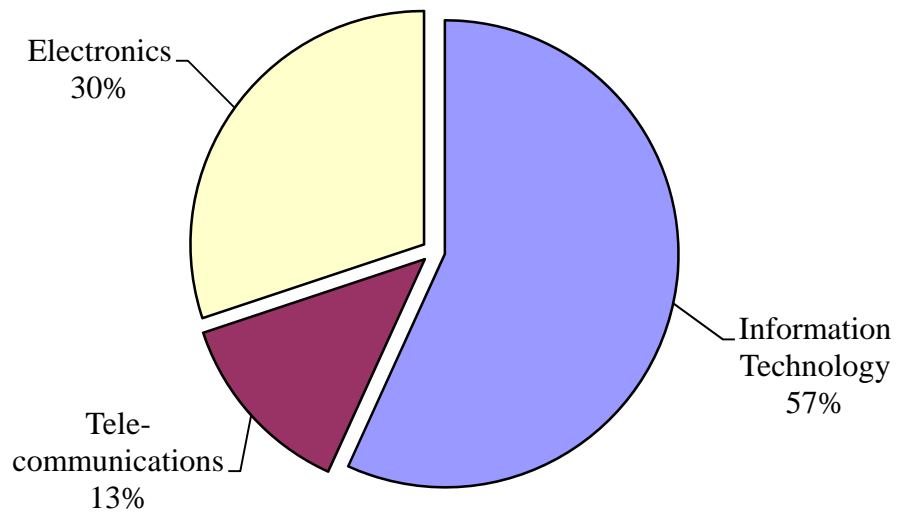
Information Technology

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

Telecommunications

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

Sectoral Distribution



THE APPLIED RESEARCH COUNCIL
應用研究局

REPORTS AND FINANCIAL STATEMENTS
(EXTRACT)*

FOR THE YEAR ENDED 31 MARCH 2017

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

THE APPLIED RESEARCH COUNCIL
應用研究局
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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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 31 March 2017.

PRINCIPAL ACTIVITY

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 31 March 2017 and the financial position of the Company as at that date are set out in the financial statements on pages 4 to 30.

BUSINESS REVIEW

The Company is eligible for the reporting exemption under section 359 of the Hong Kong Companies Ordinance 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 17 to the financial statements.

DIRECTORS

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

WONG Yu Pok, Marina (retired on 21 February 2017)

CHEUNG Wai Hing

WONG Chi Kwong, Patrick

CHOI Suk Han, Annie

KOO Chi Sum

CHU Ngar Yee (appointed on 22 February 2017)

WONG Chung Yan, Johann was the alternate director to CHOI Suk Han, Annie.

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

THE APPLIED RESEARCH COUNCIL

應用研究局

REPORT OF THE DIRECTORS

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.

AUDITOR

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 auditor is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHEUNG Wai Hing

Director

Hong Kong, 14 November 2017

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

Opinion

We have audited the financial statements of The Applied Research Council 應用研究局 (the “Company”) set out on pages 4 to 30, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprised the information included in the “Reports and Financial Statements”, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of directors and those charged with governance for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

TING HO KWAN & CHAN
Certified Public Accountants (Practising)
9th Floor, Tung Ning Building,
249-253 Des Voeux Road Central,
HONG KONG
14 November 2017

THE APPLIED RESEARCH COUNCIL
應用研究局
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 HK\$	2016 HK\$
Turnover	6	552,129	561,012
Other gain/(loss), net	7	134,802	(15,372,397)
Management fee for fund managers		(426,174)	(426,203)
Administrative and other operating expenses		(149,322)	(547,172)
Profit/(loss) before taxation	8	<u>111,435</u>	<u>(15,784,760)</u>
Taxation	9	<u>-</u>	<u>-</u>
Profit/(loss) and total comprehensive income/(expense) for the year		<u>111,435</u>	<u>(15,784,760)</u>

The notes on pages 9 to 30 are an integral part of these financial statements.

THE APPLIED RESEARCH COUNCIL
應用研究局
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Notes	2017 HK\$	2016 HK\$
Non-current assets			
Available-for-sale financial assets	11	<u>18,859,587</u>	<u>18,859,587</u>
Current assets			
Loans and other receivables	12	1,951,387	2,943,902
Fixed bank deposits	13	71,450,809	25,164,871
Cash and cash equivalents	14	<u>3,192,914</u>	<u>48,318,531</u>
		76,595,110	76,427,304
Current liability			
Other payables and accruals	15	<u>233,820</u>	<u>177,449</u>
Net current assets		<u>76,361,290</u>	<u>76,249,855</u>
Net assets		<u>95,220,877</u>	<u>95,109,442</u>
Capital and reserves			
Share capital	17	175,000,000	175,000,000
General reserve		49,980,000	49,980,000
Accumulated losses		<u>(129,759,123)</u>	<u>(129,870,558)</u>
Total equity		<u>95,220,877</u>	<u>95,109,442</u>

The financial statements were approved and authorised for issue by the Board of directors on 14 November 2017 and are signed on its behalf by:

CHEUNG Wai Hing
DIRECTOR

CHOI Suk Han, Annie
DIRECTOR

The notes on pages 9 to 30 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 31 MARCH 2017

	Share capital	General reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$
Balance at 1 April 2015	175,000,000	49,980,000	(114,085,798)	110,894,202
Loss and total comprehensive expense for the year	-	-	(15,784,760)	(15,784,760)
Balance at 31 March 2016	<u>175,000,000</u>	<u>49,980,000</u>	<u>(129,870,558)</u>	<u>95,109,442</u>
Profit and total comprehensive income for the year	-	-	111,435	111,435
Balance at 31 March 2017	<u><u>175,000,000</u></u>	<u><u>49,980,000</u></u>	<u><u>(129,759,123)</u></u>	<u><u>95,220,877</u></u>

The notes on pages 9 to 30 are an integral part of these financial statements.

General reserve represents the net amount of contribution received from members 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 31 MARCH 2017

	2017	2016
	HK\$	HK\$
Operating activities		
Profit/(loss) before taxation	111,435	(15,784,760)
Adjustments for:		
Impairment losses on available-for-sale financial assets written back	-	(2,325,300)
Impairment losses on loans and other receivables written back	(85,714)	(119,048)
Interest income	(552,129)	(561,012)
Gain on disposal of available-for-sale financial asset	-	(149,825)
Allowance for impairment losses on available-for-sale financial asset	-	17,940,000
Operating cash flows before changes in working capital	<u>(526,408)</u>	<u>(999,945)</u>
Other payables and accruals	56,371	(275)
Net cash used in operating activities	<u>(470,037)</u>	<u>(1,000,220)</u>
Investing activities		
(Increase)/decrease in fixed bank deposits	(46,285,938)	24,821,665
Proceeds from disposal of available-for-sale financial assets	-	2,571,890
Bank interest received	148,300	625,083
Loans and interest repayment received	1,482,058	1,515,392
Net cash (used in)/generated from investing activities	<u>(44,655,580)</u>	<u>29,534,030</u>
Financing activity		
Repayment of conditional grant	-	(150,000,000)
Cash used in financing activity	<u>-</u>	<u>(150,000,000)</u>

THE APPLIED RESEARCH COUNCIL

應用研究局

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

	2017	2016
	HK\$	HK\$
Net decrease in cash and cash equivalents	(45,125,617)	(121,466,190)
Cash and cash equivalents at beginning of the year	<u>48,318,531</u>	<u>169,784,721</u>
Cash and cash equivalents at end of the year (note 14)	<u>3,192,914</u>	<u>48,318,531</u>

The notes on pages 9 to 30 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 31 MARCH 2017

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 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. 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 31 March 2017 to be prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), 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 HKFRSs 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 HKFRSs 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.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets (continued)

(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 reclassified to 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.

When a decline in the fair value of an available-for-sale financial asset 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 asset has not been derecognised.

Investments are recognised/derecognised on the date the Company commits to purchase/sell the investments or they expire.

The amount of the cumulative loss that is removed from equity and reclassified to 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 those financial assets previously recognised in profit or loss.

THE APPLIED RESEARCH COUNCIL
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets (continued)

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

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 price, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investment.

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. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, by reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis and option pricing models.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax (continued)

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.

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.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax (continued)

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.

(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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

4 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. None of these developments have had a material effect on how the Company's results and financial position for the current or prior periods has prepared or presented.

The Company has not early applied any new standard, amendment or interpretation that has been issued but not yet effective for the current accounting period (see note 20).

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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 HKFRSs. 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.

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 available-for-sale financial asset is 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 such financial asset 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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6 TURNOVER

Turnover represents interest income received and receivable as follows:

	2017	2016
	HK\$	HK\$
Interest income from bank deposits	552,129	502,879
Interest income from loan receivables and debt securities	-	58,133
	<u>552,129</u>	<u>561,012</u>

7 OTHER GAIN/(LOSS), NET

	2017	2016
	HK\$	HK\$
Impairment losses on loans and other receivables written back	85,714	119,048
Impairment losses on available-for-sale financial assets written back	-	2,325,300
Gain on disposal of available-for-sale financial asset	-	149,825
Allowance for impairment losses on available-for-sale financial assets	-	(17,940,000)
Exchange gain/(loss), net	49,088	(26,570)
	<u>134,802</u>	<u>(15,372,397)</u>

8 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

	2017	2016
	HK\$	HK\$
Auditor's remuneration	50,000	47,000
Other services provided by the Auditor	4,000	11,000
	<u>54,000</u>	<u>58,000</u>

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9 TAXATION IN THE STATEMENT OF COMPREHENSIVE INCOME

No provision for Hong Kong Profits Tax is made in the financial statements as the Company has sustained a tax loss for the year (2016: Nil).

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rate:

	2017	2016
	HK\$	HK\$
Profit/(loss) before taxation	<u>111,435</u>	<u>(15,784,760)</u>
Tax calculated at applicable tax rate of 16.5% (2016: 16.5%)	18,387	(2,604,485)
Tax effect of non-taxable income	(99,201)	(82,975)
Tax effect of non-deductible expense	-	4,384
Tax effect of unused tax losses not recognised	<u>80,814</u>	<u>2,683,076</u>
Taxation charge	<u>-</u>	<u>-</u>

10 DIRECTORS' EMOLUMENTS

None of the directors received or will receive any fees or emoluments in respect of their services to the Company during the year (2016: Nil).

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11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK\$	HK\$
Unlisted securities, at cost		
- Unlisted debt securities	27,693,698	27,693,698
- Unlisted equity securities	14,967,713	14,967,713
Less: Impairment loss	23,801,824	23,801,824
	<u>18,859,587</u>	<u>18,859,587</u>

As at 31 March 2017, the accumulated impairment loss of HK\$23,801,824 (2016: HK\$23,801,824) was solely attributable to the Company's investments in debt securities.

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.

As at 31 March 2017, 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).

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12 LOANS AND OTHER RECEIVABLES

	2017	2016
	HK\$	HK\$
Loans and interest receivables	7,518,391	9,000,449
Less: Allowance for impairment losses	5,999,963	6,085,677
	<u>1,518,428</u>	<u>2,914,772</u>
Bank interest receivables	432,959	29,130
	<u>1,951,387</u>	<u>2,943,902</u>

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

	2017	2016
	HK\$	HK\$
As at 1 April	6,085,677	6,774,209
Impairment loss written off	-	(569,484)
Reversal of allowance previously recognised	(85,714)	(119,048)
As at 31 March	<u>5,999,963</u>	<u>6,085,677</u>

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13 FIXED BANK DEPOSITS

	2017	2016
	HK\$	HK\$
Bank deposits with maturity greater than three month	<u>71,450,809</u>	<u>25,164,871</u>

The effective interest rate on bank deposits at 31 March 2017 was ranging from 0.60% to 1.20% (2016: 0.48% to 0.8%) per annum. The deposits were due within ten months (2016: six months) after the end of the reporting period.

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:

	2017	2016
US Dollars	<u>2,962,886</u>	<u>2,148,482</u>

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14 CASH AND CASH EQUIVALENTS

	2017	2016
	HK\$	HK\$
Cash at banks	3,192,914	9,582,473
Short-term bank deposit	-	38,736,058
	<u>3,192,914</u>	<u>48,318,531</u>

As at 31 March 2016, the effective interest rate on short-term bank deposit was 0.2% per annum. This deposit had a maturity of 14 days.

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:

	2017	2016
US Dollars	<u>56,590</u>	<u>880,667</u>

15 OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK\$	HK\$
Accrued expenses	233,420	177,049
Others	400	400
	<u>233,820</u>	<u>177,449</u>

The carrying amounts of other payables approximate their fair values at 31 March 2017 as the impact of discounting is not significant.

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16 DEFERRED TAXATION

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

	2017	2016
	HK\$	HK\$
Tax losses	<u>281,724,666</u>	<u>281,234,884</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.

17 SHARE CAPITAL

	2017		2016	
	Number of shares	Amount HK\$	Number 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>

18 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company at 31 March 2017 to be Financial Secretary Incorporated, which is incorporated in Hong Kong.

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19 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	Available- for-sale financial assets	Total
	HK\$	HK\$	HK\$
Assets as per statement of financial position			
31 March 2017			
Available-for-sale financial assets	-	18,859,587	18,859,587
Loans and other receivables	1,951,387	-	1,951,387
Fixed bank deposits	71,450,809	-	71,450,809
Cash and cash equivalents	3,192,914	-	3,192,914
Total	<u>76,595,110</u>	<u>18,859,587</u>	<u>95,454,697</u>
31 March 2016			
Available-for-sale financial assets	-	18,859,587	18,859,587
Loans and other receivables	2,943,902	-	2,943,902
Fixed bank deposits	25,164,871	-	25,164,871
Cash and cash equivalents	48,318,531	-	48,318,531
Total	<u>76,427,304</u>	<u>18,859,587</u>	<u>95,286,891</u>

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19 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

(A) Financial instruments (continued)

	Financial liabilities at amortised costs
	HK\$
Liabilities as per statement of financial position	
31 March 2017	
Other payables and accruals	<u>233,820</u>
31 March 2016	
Other payables and accruals	<u>177,449</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.

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19 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

(B) (I) Financial risk factors (continued)

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.

(i) Foreign currency risk

The Company is exposed to foreign currency risk arising from 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.

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19 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

(B) (I) Financial risk factors (continued)

(b) Credit risk

The Company's credit risk is primarily attributable to fixed bank deposits, cash and cash equivalents, available-for-sale financial assets 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 available-for-sale financial assets, 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.

(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.

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19 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS
(CONTINUED)

(B) (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 2016 and 2017.

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.

(C) Fair value measurement of financial instruments

The directors of the Company consider that the carrying amounts of financial instruments recorded at amortised cost in the financial statements approximate to their fair values.

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20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2017

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 31 March 2017 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 7	Statement of cash flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12	Income taxes: Recognition of deferred tax assets for unrealised loss	1 January 2017
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle	1 January 2017 or 1 January 2018, as appropriate
HKFRS 9	Financial instruments	1 January 2018