

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

**INTRODUCTION**

This information paper provides an update on the financial position of the Applied Research Fund (ARF) for the period of 1 September 2003 to 30 November 2003.

**BACKGROUND**

2. The ARF is a government owned venture capital fund of \$750 million set up in 1993 to provide funding support to technology ventures and research and development projects that have commercial potential. The longer term aim is to increase the technology capability and to enhance the competitiveness of local industry, thereby promoting high value added economic development in Hong Kong. The ARF is controlled and administered by the Applied Research Council (ARC), a company wholly owned by the Government and formed specifically for this role.

3. As we started to engage private sector venture capital firms to be the ARF's fund managers in November 1998, the investments of the ARC fall into two categories: those which were processed by the then Industry Department (ID) and funded before the appointment of private sector fund managers, and those which were identified by fund managers and funded after the appointment of fund managers.

4. We briefed Members on the application and management of the ARF at the Panel meeting on 11 December 2000<sup>1</sup>, and undertook to provide quarterly written reports on the progress of the ARF. This paper provides another update since the one submitted in September 2003 and is the eleventh quarterly report since then<sup>2</sup>. Earlier on in February 2003, the Administration also briefed Members on the review of the role and future of the ARF.<sup>3</sup>

---

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

<sup>2</sup> Previous papers of the same series are LC Paper Nos. CB(1)989/00-01, CB(1)1834/00-01, CB(1)939/01-02, CB(1)1232/01-02(04), CB(1)2185/01-02, CB(1)24/02-03, CB(1)582/02-03, CB(1)1415/02-03, CB(1)2008/02-03 and CB(1)2522/02-03(01).

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

## **LATEST DEVELOPMENT**

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

5. The ARC has approved 27 projects in this category with a total amount of \$97 million. We have reported in the last update that among these 27 projects, we have exited from 21 projects in the form of loans fully repaid (8 cases), loans written off (8 cases), equities sold at net asset value (1 case), equities sold at nominal value (3 cases) and company dissolved (1 case). As a result, we have written off a total of some \$30.75 million or 31.7% of the total approved amount.

6. Among the remaining six projects, we have provided support in the form of equity injection for one case and in the form of loans for the other five cases. Details on the progress of these six cases are reported in paragraphs 7 to 9 below.

#### ***Equity Cases***

7. During this reporting period, we are still holding shares in one company.

#### ***Loan Cases***

8. Among the five loan cases, the companies of three cases were repaying the loan.

9. We have taken legal actions for the remaining two cases and among which, we obtained favourable court ruling in one case. We were continuing with the appropriate course of enforcement actions and negotiation on settlement offers. The legal proceedings of the remaining case were still on-going.

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

10. Since the last update, the ARC did not make any new or follow-on investment. As of end November 2003, the ARF has supported a total of 23 projects through fund managers with approved funding of \$382 million. Details of the 17

active investments<sup>4</sup> are at **Annex A**. The sectoral distribution of these funded projects is at **Annex B**.

11. The latest valuation as at 30 September 2003 of all the investments managed by our fund managers<sup>5</sup> stood at 55% of the total investments at cost<sup>6</sup>. The main reason for the below cost valuation remains to be that our fund managers have continued to be prudent in the valuation in view of the financial difficulties confronting some investee companies and the general unfavourable investment climate for technology businesses.

## **ADVICE SOUGHT**

12. Members are invited to note this paper.

## **Commerce, Industry and Technology Bureau December 2003**

---

<sup>4</sup> We reported in the paper of December 2000 (Ref: LC Paper No. CB(1)276/00-01(02)) that two investments had been written off, in the update of January 2002 (Ref: LC Paper No. CB(1)939/01-02) that one investee company had been wound up, in the update of June 2002 (Ref: LC Paper No. CB(1)2185/01-02) that one investee company was in the process of liquidation, in the update of October 2002 (Ref: LC Paper No. CB(1)24/02-03) that one investee company was in the process of liquidation, and in the update of June 2003 (Ref: LC Paper No. CB(1)2008/02-03) that the shares in another investee company were sold at nominal value. This means a loss of a total of \$75.39 million or 19.7% of the approved funding. Hence, a total of 17 investments are active.

<sup>5</sup> We reported in the update of October 2002 (Ref: LC Paper No. CB(1)24/02-03) that the investments previously managed by AsiaTech Ventures Limited have been managed by the ARC directly since 3 May 2002.

<sup>6</sup> The valuations of investee companies are provided by fund managers on the basis of the evaluation of individual investee company in its latest round of financing or as evaluated by the fund managers. If there is no additional round of financing after ARF's investment, our equity will be valued at our investment cost.

**List of Active Investments Approved by the Applied Research Council  
after the Engagement of Fund Managers in November 1998  
(Position as at end November 2003)**

**Information Technology**

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
ecVision Ltd.	Walden Technology Management (HK) Ltd.	Business-to-business e-commerce software and services	27.24
LECCO Technology Ltd.	Walden Technology Management (HK) Ltd.	Software tools	24.59
Wisers Information Ltd.	Walden Technology Management (HK) Ltd.	Electronic aggregation and distribution of Chinese language-based content	38.20
InfoTalk Corporation Ltd.	Walden Technology Management (HK) Ltd.	Automatic speech recognition	24.15
WebPro Ltd.	Walden Technology Management (HK) Ltd.	Internet and e-commerce technologies for the Asian electronics components industry (internet & e-commerce)	15.60
iASPEC Technologies Inc. (formerly Uni-tech Systems Engineering Ltd.)*	–	System integration, application hosting services	15.55

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
i-Security Solutions Ltd.	Walden Technology Management (HK) Ltd.	To develop and market encryption and authentication tools to facilitate e-commerce functions	10.82
QuotePower Information Ltd.*	–	Provision of online financial information and real-time electronic trading	8.00
Emsoft Limited	Softech Investment Management Co. Ltd.	To develop software applications and operating systems for embedded devices based on the Linux platform	7.80
<b>Total</b>			<b>171.95</b>

### **Biotechnology**

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

## Telecommunications

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
Wafer Systems Limited	HSBC Private Equity Technology (Asia) Ltd.	Network integration	46.70
Continuous Technologies International Ltd.*	–	Computer telephony applications	18.14
Unitech Networks Ltd.	Walden Technology Management (HK) Ltd.	Internet/Intranet system integrator	11.63
CommVerge Solutions Ltd.	Walden Technology Management (HK) Ltd.	Telecom system integration	7.80
iMagic Infomedia Technology Limited	Softech Investment Management Co. Ltd.	Development of computerized public payphones and kiosks	5.00
<b>Total</b>			<b>89.27</b>

## Electronics

<b>Investee Company</b>	<b>Fund Manager</b>	<b>Technology Area</b>	<b>Funding Approved (HK\$m)</b>
NSM Holdings Ltd.*	–	Original design manufacturer of telecom equipment	15.58
Dragonchip Limited	Softech Investment Management Co. Ltd.	To design IC chips with embedded Flash memory for consumer electronics applications	17.94
<b>Total</b>			<b>33.52</b>

\* Investments under the custody of the ARC

**Sectoral Distribution of Active Projects  
Approved by the Applied Research Council  
after the Engagement of Fund Managers  
(Position as at end November 2003)**

