

THE APPLIED RESEARCH COUNCIL
應用研究局

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2025
(EXTRACT)*

* 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 2025

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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 2025.

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 2025 and the financial position of the Company as at that date are set out in the financial statements on pages 4 to 34.

BUSINESS REVIEW

The Company is eligible for the reporting exemption under section 359 of the 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 16 to the financial statements.

DIRECTORS

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

CHEUNG Wai Hing (retired on 22 February 2025)

WONG Chi Kwong, Patrick

KOO Chi Sum

CHU Ngar Yee (retired on 22 February 2025)

LEE Kwok Bun

WONG Wai Kei (appointed on 22 February 2025)

AU Chung Pak was alternate director to LEE Kwok Bun (ceased on 20 November 2024).

HAR Mung Fei, Philip is alternate director to LEE Kwok Bun (appointed on 16 December 2024).

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

WONG Chi Kwong, Patrick

Director

Hong Kong, 9 December 2025

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 34, which comprise the statement of financial position as at 31 March 2025, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2025, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) as 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 Report of the directors for the year ended 31 March 2025.

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 HKFRS Accounting Standards as issued by the HKICPA and the 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 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.

The engagement partner on the audit resulting in this independent auditor's report is Mr. CHOW Chi Tong (practising certificate number: P01567).

TING HO KWAN & CHAN
Certified Public Accountants (Practising)
9th Floor, Tung Ning Building,
249-253 Des Voeux Road Central,
HONG KONG
9 December 2025

THE APPLIED RESEARCH COUNCIL
應用研究局
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2025

	Notes	2025 HK\$	2024 HK\$
Turnover	6	6,668,621	6,962,394
Other gains/(losses), net	7	20,998,911	(2,399,143)
Management fee for fund managers		(186,922)	(187,682)
Administrative and other operating expenses		(189,960)	(184,657)
Profit before taxation	8	<u>27,290,650</u>	<u>4,190,912</u>
Taxation	9	-	-
Profit and total comprehensive income for the year		<u>27,290,650</u>	<u>4,190,912</u>

The notes on pages 8 to 34 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 2025

	Notes	2025 HK\$	2024 HK\$
Non-current asset			
Financial assets at fair value through profit or loss	11	<u>34,846,000</u>	<u>13,276,000</u>
Current assets			
Other receivables	12	1,155,052	1,483,316
Cash and cash equivalents	13	<u>159,773,321</u>	<u>153,709,427</u>
		160,928,373	155,192,743
Current liability			
Other payables and accruals	14	<u>144,905</u>	<u>129,925</u>
Net current assets		<u>160,783,468</u>	<u>155,062,818</u>
Net assets		<u>195,629,468</u>	<u>168,338,818</u>
Capital and reserves			
Share capital	16	175,000,000	175,000,000
General reserve		49,980,000	49,980,000
Accumulated losses		<u>(29,350,532)</u>	<u>(56,641,182)</u>
Total equity		<u>195,629,468</u>	<u>168,338,818</u>

The financial statements were approved and authorised for issue by the Board of directors on 9 December 2025 and are signed on its behalf by:

WONG Chi Kwong, Patrick
DIRECTOR

LEE Kwok Bun
DIRECTOR

The notes on pages 8 to 34 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 2025

	Share capital HK\$	General reserve HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 April 2023	175,000,000	49,980,000	(60,832,094)	164,147,906
Profit and total comprehensive income for the year	-	-	4,190,912	4,190,912
Balance at 31 March 2024	<u>175,000,000</u>	<u>49,980,000</u>	<u>(56,641,182)</u>	<u>168,338,818</u>
Profit and total comprehensive income for the year	-	-	27,290,650	27,290,650
Balance at 31 March 2025	<u><u>175,000,000</u></u>	<u><u>49,980,000</u></u>	<u><u>(29,350,532)</u></u>	<u><u>195,629,468</u></u>

The notes on pages 8 to 34 are an integral part of these financial statements.

General reserve represents the net amount of contribution received from members over the ordinary shares allotted.

THE APPLIED RESEARCH COUNCIL
應用研究局
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2025

	Notes	2025 HK\$	2024 HK\$
Operating activities			
Profit before taxation		27,290,650	4,190,912
Adjustments for:			
Fair value (gain)/loss on financial assets at fair value through profit or loss	7		
Interest income	6	(6,668,621)	(6,962,394)
Operating cash flows before changes in working capital		(947,971)	(685,482)
Increase/(decrease) in other payables and accruals		14,980	(875)
Net cash used in operating activities		(932,991)	(686,357)
Investing activity			
Bank interest received		6,996,885	6,020,987
Net cash generated from investing activity		6,996,885	6,020,987
Net increase in cash and cash equivalents		6,063,894	5,334,630
Cash and cash equivalents at beginning of the year		153,709,427	148,374,797
Cash and cash equivalents at end of the year	13	159,773,321	153,709,427

The notes on pages 8 to 34 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 2025

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 was 33/F., Shui On Centre, 6-8 Harbour Road, Wan Chai, Hong Kong and changed to 11/F., North Tower, Tseung Kwan O Government Offices, 30 Tong Yin Street, Tseung Kwan O, Sai Kung, New Territories, Hong Kong since 13 September 2025. Its principal activity is provision of financial support for applied research and development projects. The Company has ceased making new or follow-on investments after 2005. Upon all the investments in securities are disposed of and there is no more outstanding loans receivable, the Company will realise all remaining assets for returning to its ultimate holding company.

2 STATEMENT OF COMPLIANCE WITH HKFRS ACCOUNTING STANDARDS

The Company qualifies for the reporting exemption under section 359(1)(a) of the 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 2025 to be prepared in accordance with HKFRS Accounting Standards as issued by the HKICPA, which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and the requirements of the Companies Ordinance. A summary of material accounting policies adopted by the Company is set out in note 3.

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

The HKICPA has issued a number of amendments to HKFRS Accounting Standards 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 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES

(A) Basis of preparation of the financial statements

The measurement basis used in preparing the financial statements is historical cost except for financial assets which are carried at fair value.

(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

Recognition and measurement of financial assets

A financial asset is recognised in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument.

The financial assets are initially stated at fair value plus directly attributable transaction costs, except for those instruments measured at fair value through profit or loss (“FVTPL”) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Company determines fair value of financial assets, see note 18(C). These investments are subsequently accounted for as follows, depending on their classification.

On initial recognition, a financial asset is classified into following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (See Note 3(G)).
- FVTPL if the financial asset does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) (recycling). Changes in the fair value of the financial asset are recognised in profit or loss.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(D) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks 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 2025

3 SUMMARY OF MATERIAL 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 2025

3 SUMMARY OF MATERIAL 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.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(G) Revenue recognition

The Company's revenue recognition policy is as follows:

Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(H) Credit losses and impairment of assets

Credit losses from financial instruments

The Company recognises a loss allowance for expected credit losses ("ECLs") on the following item:

- financial assets measured at amortised cost (including cash and cash equivalents, fixed bank deposits and other receivables).

(i) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable; or
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(H) Credit losses and impairment of assets (continued)

Credit losses from financial instruments (continued)

(i) Measurement of ECLs (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

In measuring ECLs, the Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(H) Credit losses and impairment of assets (continued)

Credit losses from financial instruments (continued)

(ii) Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(iii) Basis of calculation of interest income

Interest income recognised in accordance with note 3(G) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

(H) Credit losses and impairment of assets (continued)

Credit losses from financial instruments (continued)

(iv) Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

4 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRS Accounting Standards, which are effective for the Company's accounting periods beginning on 1 April 2024. The Company has adopted the following amendments for the first time for the current year's financial statements:

Amendments to HKAS 1	Classification of liabilities as current or non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current liabilities with covenants
Amendments to HKFRS 16	Lease liability in a sale and leaseback
Amendments to HKAS 7 and HKFRS 7	Supplier finance arrangements
HK Interpretation 5 (Revised)	Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause

The application of the amendments to HKFRS Accounting Standards in the current year has had no material impact on the Company's financial performance and positions for the current and prior year and/or on the disclosures set out in these financial statements.

The Company has not early applied any other new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (note 19).

THE APPLIED RESEARCH COUNCIL
應用研究局
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company's management makes assumptions, estimates and judgments 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 Accounting Standards. The assumptions, estimates and judgments are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgments, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

Critical judgment in applying the Company's accounting policies

Fair value measurements and valuation processes

Some of the Company's assets are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages independent professional valuers to perform the valuation. The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 11 and 18 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of the financial assets.

6 TURNOVER

Turnover represents interest income received and receivable as follows:

	2025	2024
	HK\$	HK\$
Interest income from bank deposits	<u>6,668,621</u>	<u>6,962,394</u>

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7 OTHER GAINS/(LOSSES), NET

	2025	2024
	HK\$	HK\$
Fair value gain/(loss) on financial assets at fair value through profit or loss		
Exchange loss, net	(571,089)	(313,143)
	<u>20,998,911</u>	<u>(2,399,143)</u>

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2025	2024
	HK\$	HK\$
Auditor's remuneration	<u>55,000</u>	<u>54,000</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 (2024: Nil). The Company has unused tax losses of HK\$232,451,035 (2024: HK\$232,074,153).

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

	2025	2024
	HK\$	HK\$
Profit before taxation	<u>27,290,650</u>	<u>4,190,912</u>
Tax calculated at applicable tax rate of 16.5% (2024: 16.5%)	4,502,957	691,500
Tax effect of non-deductible expense	94,229	51,669
Tax effect of non-taxable income	(1,100,322)	(1,148,795)
Tax effect of temporary difference unrecognised	-	344,190
Tax effect of tax losses recognised	(3,559,050)	-
Tax effect of tax losses unrecognised	<u>62,186</u>	<u>61,436</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 (2024: Nil). The Company has no key management personnel other than directors.

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11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2025	2024
	HK\$	HK\$
Financial assets at FVTPL		
Unlisted equity securities (note)	<u> </u>	<u> </u>

Note: The unlisted equity securities were stated at fair values which have been determined by Roma Appraisals Limited, an independent professional valuer appointed by the Company, based on the contingent claim method under different scenarios.

Financial assets at FVTPL were presented within the section of operating activities as part of changes in working capital in the statement of cash flows.

Gains/losses on disposal of financial assets at FVTPL and their changes in fair value were recorded in “Other gains/(losses), net” in the statement of comprehensive income (note 7).

12 OTHER RECEIVABLES

	2025	2024
	HK\$	HK\$
Bank interest receivables	<u>1,155,052</u>	<u>1,483,316</u>

For the other receivables, the Company measures the loss allowance in accordance with note 3(H)(i).

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13 CASH AND CASH EQUIVALENTS

	2025	2024
	HK\$	HK\$
Bank deposits with maturity within three months	157,510,439	151,081,856
Cash at banks	2,262,882	2,627,571
	<u>159,773,321</u>	<u>153,709,427</u>

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:

	2025	2024
US Dollars	<u>12,895,791</u>	<u>12,326,520</u>

14 OTHER PAYABLES AND ACCRUALS

	2025	2024
	HK\$	HK\$
Accrued expenses	144,505	129,525
Others	400	400
	<u>144,905</u>	<u>129,925</u>

The carrying amounts of other payables approximate their fair values at 31 March 2025 and 2024 as the impact of discounting is not significant.

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15 DEFERRED TAXATION

The following are the major components of deferred tax asset/(liability) recognised by the Company and the movements thereon during the current year:

	Accelerated tax depreciation	Tax losses	Total
	HK\$	HK\$	HK\$
At 31 March 2024	(1,466,467)	1,466,467	-
Addition	(3,559,050)	3,559,050	-
At 31 March 2025	<u>(5,025,517)</u>	<u>5,025,517</u>	<u>-</u>

For the purpose of presentation in the statement of financial position, the above deferred tax asset has been offset against the deferred tax liability.

At the end of the reporting period, the Company has unused tax losses of HK\$232,451,035 (2024: HK\$232,074,153) available for offset against future profits, of which deferred tax asset has been recognised in respect of the unused tax losses of HK\$30,457,676 (2024: HK\$8,887,676). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$201,993,359 (2024: HK\$223,186,477) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

16 SHARE CAPITAL

	2025 and 2024	
	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>

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17 ULTIMATE HOLDING COMPANY

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

18 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

(A) Financial instruments

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

	At amortised cost HK\$	Assets at FVTPL HK\$	Total HK\$
Assets as per statement of financial position			
31 March 2025			
Financial assets at FVTPL	-	34,846,000	34,846,000
Other receivables	1,155,052	-	1,155,052
Cash and cash equivalents	159,773,321	-	159,773,321
Total	<u>160,928,373</u>	<u>34,846,000</u>	<u>195,774,373</u>
31 March 2024			
Financial assets at FVTPL	-	13,276,000	13,276,000
Other receivables	1,483,316	-	1,483,316
Cash and cash equivalents	153,709,427	-	153,709,427
Total	<u>155,192,743</u>	<u>13,276,000</u>	<u>168,468,743</u>

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18 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 2025	
Other payables and accruals	<u>144,905</u>
31 March 2024	
Other payables and accruals	<u>129,925</u>

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

(B) (I) Financial risk factors

The main purpose of the Company's financial instruments in unlisted equity investments in Hong Kong 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.

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

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

(b) Price risk

The Company is exposed to other price risk through investments in equity securities. The sensitivity to price risk in relation to the investments in equity securities cannot be reliably determined due to numerous uncertainties regarding the future development of these investments.

(c) Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and other receivables.

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

The Company does not provide any financial guarantees which would expose the Company to credit risk.

For cash and cash equivalents and other receivables, the Company measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

As at 31 March 2025 and 2024, other receivables are assessed on 12 months ECL basis as there had been no significant increase in credit risk since initial recognition.

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

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

(d) 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 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 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 2024 and 2025.

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

(C) Fair value measurement

(I) Financial assets measured at fair value

(a) Fair value hierarchy

The following tables present the fair value of the Company's financial assets measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level in which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in valuation technique as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets and liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

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

(C) Fair value measurement (continued)

(I) Financial assets measured at fair value (continued)

(a) Fair value hierarchy (continued)

	Fair value at 31 March 2025 HK\$	Fair value measurements as at 31 March 2025 categorised into		
		Level 1 HK\$	Level 2 HK\$	Level 3 HK\$
Recurring fair value measurement				
Assets				
Unlisted equity securities	34,846,000	-	-	34,846,000
	<u>34,846,000</u>	<u>-</u>	<u>-</u>	<u>34,846,000</u>
		Fair value measurements as at 31 March 2024 categorised into		
	Fair value at 31 March 2024 HK\$	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$
Recurring fair value measurement				
Assets				
Unlisted equity securities	13,276,000	-	-	13,276,000
	<u>13,276,000</u>	<u>-</u>	<u>-</u>	<u>13,276,000</u>

During the years ended 31 March 2024 and 2025, there were no transfers between Level 1 and 2, or transfer into or out of Level 3. The Company's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

(C) Fair value measurement (continued)

(I) Financial assets measured at fair value (continued)

(b) Information about Level 3 fair value measurement

The fair value of the unlisted equity securities is determined using the contingent claim method in determining the fair value of the shares under different scenarios, namely IPO, liquidation/sales and redemption.

As at 31 March 2025:

Description	Valuation techniques	Unobservable inputs
Unlisted equity securities		
- for IPO scenario		Probability of IPO
- for liquidation/sales scenario		Probability of liquidation/sales
	Black-Scholes option pricing model	Risk free rate Expected volatility Expected dividend yield

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

(C) Fair value measurement (continued)

(I) Financial assets measured at fair value (continued)

(b) Information about Level 3 fair value measurement (continued)

As at 31 March 2024:

Description	Valuation techniques	Unobservable inputs
Unlisted equity securities		
- for IPO scenario		Probability of IPO
- for liquidation/sales scenario		Probability of liquidation/sales
	Black-Scholes option pricing model	Risk free rate Expected volatility Expected dividend yield

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2025 HK\$	2024 HK\$
At 1 April	13,276,000	15,362,000
Net gain/(loss) recognised in profit or loss during the year (note 7)		
At 31 March	34,846,000	13,276,000

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

(C) Fair value measurement (continued)

(II) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Company's other financial instruments carried at cost or amortised cost are approximate to their fair values as at 31 March 2025 and 2024 due to their short maturities.

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19 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2025

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 March 2025 and which have not been early adopted in these financial statements. These include the following which may be relevant to the Company.

		Effective for accounting periods beginning on or after
Amendments to HKAS 21	Lack of exchangeability	1 January 2025
Amendments to HKFRS 9 and HKFRS 7	Amendments to the classification and measurement of financial instruments	1 January 2026
Amendments to HKFRS 9 and HKFRS 7	Contracts referencing nature - Dependent electricity	1 January 2026
Amendments to HKFRS Accounting Standards	Annual improvements to HKFRS Accounting Standards - Volume 11	1 January 2026
HKFRS 18	Presentation and disclosure in financial statements	1 January 2027
HKFRS 19	Subsidiaries without public accountability: Disclosures	1 January 2027
Amendments to HK Int 5	Hong Kong Interpretation 5 Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2027
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of their initial application. So far the Company has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.