PALADIN LIMITED

(incorporated in Bermuda with limited liability)
Stock Code : 495 and 642 (Preference Shares)

ANNUAL REPORT OF
A SUBSIDIARY –
SENSORS INTEGRATION TECHNOLOGY LIMITED

2011

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MANAGEMENT DISCUSSION AND ANALYSIS

The principal activity of the Company is the research and development of high technology systems and applications.

BUSINESS REVIEW AND PROSPECT

The Company has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. The plan is in early stage and did not generate any revenue to the Company at this stage.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2011, net current liabilities of the Company were approximately HK$61 million. The current ratio was 0.47. The bank balances were approximately HK$3 million.

As at 30 June 2011, the major outstanding liabilities of the Company was amount due to a fellow subsidiary of approximately HK$96 million, amount due to a director of approximately HK$14 million and other payables and accruals of approximately 7 million.

The majority of the Company's assets and borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. In view of the stability of the exchange rate of HK dollars and US dollars, the directors consider that the Company has no significant exposure to exchange fluctuation and does not pledge against foreign exchange risk.

The Directors consider that it is not meaningful to publish a gearing ratio of the Company until such time the Company is in a positive shareholders' equity position.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2011, the Company had no material acquisitions and disposals of subsidiaries.

As at 30 June 2011, the Company had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Company employed total of 18 employees. They were remunerated according to market conditions.

DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend (2010: nil).

ACKNOWLEDGEMENT

On behalf of my fellow directors, I wish to thank all staff and employees for their diligence and loyal support during the year under review.

By order of the Board
Chen Te Kuang Mike
DIRECTOR

Hong Kong
26 September 2011

DIRECTORS

Mr. Oung Da Ming, aged 54, joined the Company in 2007. Previously he was the chairman between 1985 and 1989 of The E-Hsin International Corporation, a company headquartered in Taiwan engaged in manufacturing and export. In 1991, Mr. Oung became the president of Hualon Microelectronics Corporation until 2004. He became its chairman in 1995 and continues to hold this position. Hualon Microelectronics Corporation which is headquartered in Taiwan was established to engage in integrated circuit ("IC") design, wafer fabrication and the research and development of IC products. In 2001 it disposed of its wafer foundry and has concentrated its activities on fabless wafer design and the research, development and trading in IC related products. Since 2000 Mr. Oung has also been actively developing a technology capability in Russia including establishing Optolink in 2001. Mr. Oung is the uncle of Mr. Mike Chen.

Mr. Chen Te Kuang Mike, aged 33, joined the Company in 2007. He has more than 9 years' management and production experience in electronics industry.

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2011.

PRINCIPAL ACTIVITY

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 15 to the consolidated financial statements. During the year under review, there was no significant change in the Group's principal activities.

RESULTS

The results of the Group are set out in the consolidated statement of comprehensive income on page 8.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

DIRECTORS

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

Oung Da Ming
Chen Te Kuang Mike

In accordance with Articles 7 of the Company's Articles of Association, both directors retire, being eligible, offer themselves for re-election.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Chen Te Kuang Mike
DIRECTOR

26 September 2011

Deloitte.
德勤

TO THE DIRECTORS OF
SENSORS INTEGRATION TECHNOLOGY LIMITED
感應系統科技有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sensors Integration Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 8 to 32, which comprise the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. All duties and liabilities (including without limitation, those arising from negligence) to any third party are specifically disclaimed. Accordingly, any other person who relies on this report does so entirely at their own risk. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 30 June 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Specific Disclaimer

You have informed us that it is your intention to make available a copy of this report to the holders of convertible redeemable preference shares issued by Paladin Limited. For the avoidance of doubt, all duties and liabilities (including, without limitation, those arising from negligence or otherwise) to the holders of convertible redeemable preference shares issued by Paladin Limited are specifically disclaimed.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 September 2011

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	NOTES	**2011** ***HK$***	2010 *HK$*
Other income		**3,706,572**	1,491,199
Research and development expenses		**(3,602,993)**	(12,146,307)
Administrative expenses		**(14,832,401)**	(15,319,978)
Loss for the year	8	**(14,728,822)**	(25,975,086)
Other comprehensive (expense) income			
Exchange differences arising on translation		**(1,058,474)**	643,372
Total comprehensive expense for the year		**(15,787,296)**	(25,331,714)

AT 30 June 2011

	Notes	2011 HK$	2010 HK$
Non-current assets			
Property, plant and equipment	10	**147,273**	612,146
Current assets			
Other receivables and prepayments		**1,425,268**	2,356,914
Amounts due from fellow subsidiaries	11	**50,847,898**	–
Bank balances and cash		**3,014,967**	15,217,603
		55,288,133	17,574,517
Current liabilities			
Other payables and accruals		**6,816,453**	6,137,696
Amount due to ultimate holding company	11	**92,950**	–
Amount due to immediate holding company	11	**–**	57,546,944
Amount due to a fellow subsidiary	11	**95,929,530**	–
Amount due to a director		**13,881,746**	–
		116,720,679	63,684,640
Net current liabilities		**(61,432,546)**	(46,110,123)
Net liabilities		**(61,285,273)**	(45,497,977)
Capital and reserves			
Share capital	12	**2,597,634**	2,597,634
Reserves		**(63,882,907)**	(48,095,611)
Deficiency of shareholder's fund		**(61,285,273)**	(45,497,977)

The consolidated financial statements on pages 8 to 32 were approved and authorised for issue by the Board of Directors on 26 September 2011.

Chen Te Kuang Mike
DIRECTOR

Oung Da Ming
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Share capital *HK$*	Translation reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
At 1 July 2009	2,597,634	(1,473,030)	(21,290,867)	(20,166,263)
Loss for the year	–	–	(25,975,086)	(25,975,086)
Exchange differences arising on translation	–	643,372	–	643,372
Total comprehensive expense for the year	–	643,372	(25,975,086)	(25,331,714)
At 30 June 2010	2,597,634	(829,658)	(47,265,953)	(45,497,977)
Loss for the year	–	–	(14,728,822)	(14,728,822)
Exchange differences arising on translation	–	(1,058,474)	–	(1,058,474)
Total comprehensive expense for the year	–	(1,058,474)	(14,728,822)	(15,787,296)
At 30 June 2011	2,597,634	(1,888,132)	(61,994,775)	(61,285,273)

Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	2011	2010
	HK$	*HK$*
Operating activities		
Loss before taxation	**(14,728,822)**	(25,975,086)
Adjustment for:		
Depreciation and impairment loss	**507,369**	274,165
Gain on disposal of property, plant and equipment	**(64,160)**	–
Interest income	**(74,914)**	(369,796)
Operating cash flows before movements in working capital	**(14,360,527)**	(26,070,717)
Decrease (increase) in other receivables and prepayments	**1,001,338**	(2,013,424)
(Decrease) increase in other payables and accruals	**(475,515)**	5,742,540
Net cash used in operating activities	**(13,834,704)**	(22,341,601)
Investing activities		
Interest received	**74,914**	369,796
Purchase of property, plant and equipment	**(70,052)**	(114,770)
Sales proceeds from disposal of property, plant and equipment	**118,208**	–
Net cash from investing activities	**123,070**	255,026
Financing activities		
Repayment to immediate holding company	**(12,465,312)**	(4,978,635)
Advance from ultimate holding company	**92,950**	–
Advance from a director of fellow subsidiaries	**13,881,746**	–
Net cash from (used in) financing activities	**1,509,384**	(4,978,635)
Net decrease in cash and cash equivalents	**(12,202,250)**	(27,065,210)
Cash and cash equivalents at beginning of the year	**15,217,603**	42,271,918
Effect of foreign exchange rate changes	**(386)**	10,895
Cash and cash equivalents at end of the year, representing bank balances and cash	**3,014,967**	15,217,603

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its immediate holding company is Perfect Place Limited, a company which is incorporated in the British Virgin Islands. Its ultimate holding company is Paladin Limited ("Paladin"), a company which was incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and the principal place of business of the Company is Room 4501, 45th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD") which is the same as the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiaries are engaged in scientific development.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 June 2011 have been prepared solely for the information of the Company's management.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the net liabilities of approximately HK$61,285,000 as at 30 June 2011 and a loss of approximately HK$14,729,000 for the year then ended. Paladin has agreed to provide adequate funds for the Group to meet in full its financial obligations as they fall due for the foreseeable future. Taking into account the available unutilised bank credit facility as at 30 June 2011 and the cash flows generated from the operations of Paladin, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations (collectively "New and Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendments to HKAS 27 and HKFRS 3 as part of Improvements to HKFRSs issued in 2010
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets
HKAS 32 (Amendment)	Classification of rights issues
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosure for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC*) – INT 19	Extinguishing financial liabilities with equity instruments
HK – INT 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

* IFRIC represents the IFRS Interpretation Committee.

The adoption of the new and revised HKFRSs had no material effect on the financial statements of the Company for the current or prior accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised standards and interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendments to HKAS 1, HKAS 34, HKFRS 1, HKFRS 7, and HK (IFRIC) – INT 13 as part of Improvements to HKFRSs issued in 2010[4]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[1]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
HKAS 1 (Amendments)	Presentation of items of other comprehensive income[3]
HKAS 19 (Revised 2011)	Employee benefits[2]
HKAS 24 (Revised 2011)	Related party disclosures[4]
HKAS 27 (Revised 2011)	Separate financial statements[2]
HKAS 28 (Revised 2011)	Investments in associates and joint ventures[2]
HK(IFRIC) – INT 14	Prepayment of a minimum finding requirement[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2011

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

New and revised standards and interpretations issued but not yet effective (Cont'd)

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 July 2013, with earlier application permitted. The directors of the Company anticipate that the amendments to HKFRS 9 may not have material impact on the Group's financial assets and financial liabilities based on an analysis of the Group's financial assets and liabilities as at 30 June 2011.

The directors of the Company anticipate that the application of new and revised Standards, Amendments and Interpretations will have no material impact on the consolidated financial statements of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Revenue recognition

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, amounts due from fellow subsidiaries and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contact, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity (Cont'd)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including other payables, amount due to ultimate holding company, amount due to immediate holding company, amount due to a fellow subsidiary and amount due to a director are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment loss on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

Payments to defined contribution retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contributions.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of amount due to ultimate holding company, amount due to immediate holding company, amount due to a fellow subsidiary, amount due to a director and equity attributable to owners of the Company, comprising issued share capital and reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company reviews the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Company will balance its overall capital structure through new share issues as well as issue of new debts.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011	2010
	HK$	*HK$*
Financial assets		
Loans and receivables		
Other receivables	**1,151,358**	1,732,293
Amounts due from fellow subsidiaries	**50,847,898**	–
Bank balances and cash	**3,014,967**	15,217,603
	55,014,223	16,949,896
Financial liabilities		
Amortised cost		
Other payables	**436,471**	6,087,696
Amount due to ultimate holding company	**92,950**	–
Amount due to immediate holding company	**–**	57,546,944
Amount due to a fellow subsidiary	**95,929,530**	–
Amount due to a director	**13,881,746**	–
	110,340,697	63,634,640

Financial risk management objectives and policies

The Group's major financial instruments include other receivables, amounts due from fellow subsidiaries, bank balances and cash, other payables, amount due to ultimate holding company, amount due to immediate holding company, amount due to a fellow subsidiary and amount due to a director. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments and the policies on how to mitigate the risk are set out below. Management manages and monitors the exposures to ensure appropriate measures are implemented on a timely and effective manner. The risks associated and the management policies remain unchanged from prior period.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

	2011	2010
	HK$	*HK$*
Assets		
United States Dollars ("USD")	**468,104**	134,650
Liabilities		
USD	**–**	(57,546,944)

The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

The Group is mainly exposed to the foreign currency risk on USD. As HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis has been prepared.

Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Company consider that the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period.

6. FINANCIAL INSTRUMENTS (Cont'd)

Financial risk management objectives and policies (Cont'd)

Liquidity risk

The Group relies on financial support from Paladin which has agreed to provide adequate funds for the Group as a significant source of liquidity.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed by the management to finance the Company's operations and mitigate the effects of the fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest rate table

	Weighted average interest rate	**On demand**	**Less than 3 months**	**Total undiscounted cash flows and carrying amounts**
	%	*HK$*	*HK$*	*HK$*
At 30 June 2011				
Non-derivative financial liabilities				
Other payables	N/A	–	436,471	436,471
Amount due to ultimate holding company	N/A	92,950	–	92,950
Amount due to fellow subsidiaries	N/A	95,929,530	–	95,929,530
Amount due to a director	N/A	13,881,746	–	13,881,746
		109,904,226	436,471	110,340,697
At 30 June 2010				
Non-derivative financial liabilities				
Other payables	N/A	–	6,087,696	6,087,696
Amount due to immediate holding company	N/A	57,546,944	–	57,546,944
		57,546,944	6,087,696	63,634,640

6. FINANCIAL INSTRUMENTS (Cont'd)

Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements, approximate their fair values.

7. TAXATION

The charge comprises:

	2011	2010
	HK$	*HK$*
Current tax:		
Other jurisdictions	**–**	–

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit in both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. TAXATION (Cont'd)

Taxation for the year can be reconciled to loss per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$	*HK$*
Loss before taxation	**(14,728,822)**	(25,975,086)
Tax credit at Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	**(2,430,256)**	(4,285,889)
Tax effect of expenses not deductible for tax purposes	**3,041,840**	4,531,937
Tax effect of income not assessable for tax purposes	**(611,584)**	(246,048)
Taxation for the year	**–**	–

No deferred tax asset in respect of tax losses has been recognised due to the unpredictability of future profit streams.

8. LOSS FOR THE YEAR

	2011	2010
	HK$	*HK$*
Loss for the year has been arrived at after charging:		
Directors' remuneration (note 9)	**–**	–
Other staff costs	**6,369,025**	7,803,505
Contribution to retirement benefit scheme	**111,801**	456,887
	6,480,826	8,260,392
Auditor's remuneration	**50,000**	50,000
Depreciation and impairment loss	**507,369**	274,165
Loss on disposal of property, plant and equipment	**–**	1,896
and after crediting:		
Interest income	**74,914**	369,796
Gain on disposal of property, plant and equipment	**64,160**	–

9. DIRECTORS' EMOLUMENTS

Particulars of the emoluments of the directors are as follows:

The emoluments paid or payable to each of the two (2010: two) directors were as follows:

	2011		
	Oung Da Ming	**Chen Te Kuang Mike**	**Total**
	HK$	***HK$***	***HK$***
Directors' fees	–	–	–
Other emoluments:			
Salaries and other benefits	–	–	–
Retirement benefit scheme contributions	–	–	–
	–	–	–
Total	–	–	–

	2010		
	Oung Da Ming	Chen Te Kuang Mike	Total
	HK$	*HK$*	*HK$*
Directors' fees	–	–	–
Other emoluments:			
Salaries and other benefits	–	–	–
Retirement benefit scheme contributions	–	–	–
	–	–	–
Total	–	–	–

10. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles	Furniture, fixture and equipment	Computer	Machineries	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
COST					
At 1 July 2009	221,827	–	124,416	472,218	818,461
Additions	–	10,975	103,795	–	114,770
Exchange realignment	(80)	350	731	(171)	830
At 30 June 2010	221,747	11,325	228,942	472,047	934,061
Additions	–	7,228	62,824	–	70,052
Disposals	–	(920)	(43,428)	(93,401)	(137,749)
Exchange realignment	25,569	618	10,842	48,907	85,936
At 30 June 2011	247,316	18,251	259,180	427,553	952,300
DEPRECIATION AND IMPAIRMENT					
At 1 July 2009	36,971	–	6,165	13,117	56,253
Provided for the year	45,851	739	64,897	162,678	274,165
Exchange realignment	(1,515)	29	(1,683)	(5,334)	(8,503)
At 30 June 2010	81,307	768	69,379	170,461	321,915
Provided for the year	11,675	2,586	52,594	43,902	110,757
Eliminated on disposals	–	(26)	(34,380)	(49,295)	(83,701)
Impairment loss recognised in profit or loss	136,212	–	30,828	229,572	396,612
Exchange realignment	18,122	53	8,356	32,913	59,444
At 30 June 2011	247,316	3,381	126,777	427,553	805,027
CARRYING VALUES					
At 30 June 2011	–	14,870	132,403	–	147,273
At 30 June 2010	140,440	10,557	159,563	301,586	612,146

10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Computers	50%
Motor vehicles	20%
Machineries	15-25%
Furniture, fixture and equipment	10 – 20%

11. AMOUNT DUE FROM (TO) GROUP COMPANIES

The amounts are unsecured, interest-free and repayable on demand.

12. SHARE CAPITAL

	Nominal value per share	**Number of shares**	**Amount**
	HK$		*HK$*
Authorised:			
At 1 July 2009, 30 June 2010 and 30 June 2011	0.01	259,763,430	2,597,634
Issued and fully paid:			
At 1 July 2009, 30 June 2010 and 30 June 2011	0.01	259,763,430	2,597,634

13. OPERATING LEASE

At the end of the reporting period, the Group had contracted with landlords for the following future minimum lease payments.

The Group as lessee

	2011	2010
	HK$	*HK$*
Within one year	**560,530**	1,809,075
In the second to fifth years inclusive	**486,956**	338,247
	1,047,486	2,147,322

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 22 months.

14. MAJOR NON-CASH TRANSACTION

During the year, the amounts due from fellow subsidiaries of HK$50,847,898 were set off against the amount due to immediate holding company and amount due to a fellow subsidiary.

15. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued share capital	Proportion of nominal value of issued share capital directly held by the Company at 30 June 2010 and 2011	Principal activities
Sensors Integration Technology (M) SDN BHD	Malaysia	Malaysian Ringgit 1.00	100%	Scientific development
LLC RPC Sersoris	Russia	Russion Rouble 1.00	100%	Inactive
Unified Color Technologies, LLC	USA	United States Dollar 1.00	100%	Scientific development