

PALADIN LIMITED

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

INTERIM REPORT OF A SUBSIDIARY – SENSORS INTEGRATION TECHNOLOGY LIMITED

2008

For the six months ended 31 December 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2008

		Six months ended 31 December	
		2008	2007
	<i>NOTE</i>	<i>HK\$</i>	<i>HK\$</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover		–	–
Other income		2,151,438	145
Research and development expenses		(5,929,003)	–
Administrative expenses		(5,188,398)	(630)
		<u> </u>	<u> </u>
Loss for the period	4	<u><u>(8,965,963)</u></u>	<u><u>(485)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	31.12.2008 HK\$ (Unaudited)	30.6.2008 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	5	<u>233,312</u>	<u>—</u>
Current assets			
Other receivables and prepayments		<u>176,663</u>	<u>—</u>
Bank balances and cash		<u>53,904,942</u>	<u>54,656,859</u>
		<u>54,081,605</u>	<u>54,656,859</u>
Current liabilities			
Other payables and accruals		<u>516,510</u>	<u>53,873</u>
Amount due to ultimate holding company	6	<u>62,343,223</u>	<u>—</u>
Amount due to a director of fellow subsidiaries	7	<u>—</u>	<u>52,065,107</u>
		<u>62,859,733</u>	<u>52,118,980</u>
Net current (liabilities) assets		<u>(8,778,128)</u>	<u>2,537,879</u>
Net (liabilities) assets		<u><u>(8,544,816)</u></u>	<u><u>2,537,879</u></u>
Capital and reserves			
Share capital	8	<u>2,597,634</u>	<u>2,597,634</u>
Reserves		<u>(11,142,450)</u>	<u>(59,755)</u>
(Deficiency) balance of shareholder's fund		<u><u>(8,544,816)</u></u>	<u><u>2,537,879</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

	Share capital <i>HK\$</i>	Translation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 July 2007 (audited)	1	–	(13,567)	(13,566)
Issue of shares	2,597,633	–	–	2,597,633
Loss for the year	–	–	(46,188)	(46,188)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2008 and 1 July 2008 (audited)	2,597,634	–	(59,755)	2,537,879
Exchange differences arising on translation of foreign operations	–	(2,116,732)	–	(2,116,732)
Loss for the period	–	–	(8,965,963)	(8,965,963)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2008 (unaudited)	<u>2,597,634</u>	<u>(2,116,732)</u>	<u>(9,025,718)</u>	<u>(8,544,816)</u>
At 1 July 2007 (audited)	1	–	(13,567)	(13,566)
Loss for the period	–	–	(485)	(485)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2007 (unaudited)	<u>1</u>	<u>–</u>	<u>(14,052)</u>	<u>(14,051)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008	2007
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(8,784,717)</u>	<u>(630)</u>
Investing activities		
Interest received	143,119	145
Purchase of property, plant and equipment	<u>(276,844)</u>	<u>–</u>
Net cash (used in) from investing activities	<u>(133,725)</u>	<u>145</u>
Financing activities		
Advance from ultimate holding company	62,343,223	–
Repayment to a director of fellow subsidiaries	(52,065,107)	–
Advance from fellow subsidiaries	<u>–</u>	<u>65,677,100</u>
Net cash from financing activities	<u>10,278,116</u>	<u>65,677,100</u>
Net increase in cash and cash equivalents	1,359,674	65,676,615
Cash and cash equivalents at beginning of the period	54,656,859	20,034
Effect of foreign exchange rate changes	<u>(2,111,591)</u>	<u>–</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>53,904,942</u></u>	<u><u>65,696,649</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2008

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2008.

In the current interim period, the Group has applied amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2008.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Company has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 31 December 2008

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendment)	Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity of associate ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business combinations ³
HKFRS 7 (Amendments)	Improving disclosures about financial instruments ²
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 9 & HKAS39 (Amendments)	Embedded derivatives ⁴
HK(IFRIC) – INT 15	Agreements for the construction of real estate ²
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation ⁵
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners ³
HK(IFRIC) – INT 18	Transfer of assets from customers ⁶

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 July 2009.

⁴ Effective for annual periods ending on or after 30 June 2009.

⁵ Effective for annual periods beginning on or after 1 October 2008.

⁶ Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Improvement to HKFRSs require property being constructed or developed for future use as investment property to classify as investment property for annual period beginning on or after 1 July 2009. The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 31 December 2008

3. TAXATION

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the proposed reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/2009.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the group has no assessable profit in both periods.

4. LOSS FOR THE PERIOD

	Six months ended 31 December	
	2008	2007
	HK\$	HK\$
Loss for the period has been arrived at after charging (crediting):		
Depreciation	13,842	–
Interest income	(143,119)	(145)
	<u> </u>	<u> </u>

5. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$276,844 (1.7.2007 to 31.12.2007: nil) on addition to property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

For the six months ended 31 December 2008

6. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

7. AMOUNT DUE TO A DIRECTOR OF FELLOW SUBSIDIARIES

The amount was unsecured, interest-free and repaid in full during the period ended 31 December 2008.

8. SHARE CAPITAL

	Nominal value per share HK\$	Number of shares	Amount HK\$
Authorised:			
At 1 July 2007	1.00	10,000	10,000
Subdivision of ordinary shares		990,000	—
	0.01	1,000,000	10,000
Increase in authorised share capital	0.01	258,763,430	2,587,634
At 30 June 2008 and 31 December 2008	0.01	259,763,430	2,597,634
Issued and fully paid:			
At 1 July 2007	1.00	1	1
Subdivision of ordinary shares		99	—
	0.01	100	1
Issue of new shares	0.01	259,763,330	2,597,633
At 30 June 2008 and 31 December 2008	0.01	259,763,430	2,597,634

On 30 June 2008, an extraordinary general meeting was passed to approve (i) subdivision of the Company's authorised share capital of HK\$10,000 into 1,000,000 ordinary shares of HK\$0.01 each; and (ii) increase the authorised share capital of the Company from HK\$10,000 to HK\$2,597,634.30 by creation of 258,763,430 ordinary shares of HK\$0.01 each to rank pari passu in all respects with the existing ordinary shares of the Company.

On 30 June 2008, the Company issued additional 259,763,330 ordinary shares of HK\$0.01 each to the sole shareholder at par for general working capital purpose. All ordinary shares issued rank pari passu with the then existing ordinary shares in issue in all respects.

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 31 December 2008, net current liabilities of the Company were approximately HK\$9 million. The current ratio was 0.86. The bank balances were approximately HK\$54 million.

As at 31 December 2008, the major outstanding liabilities of the Company was amount due to ultimate holding company of approximately HK\$62 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 six months ended 31 December 2008, the Company had no material acquisitions and disposals of subsidiaries.

As at 31 December 2008, the Company had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Company employed a total of 88 employees. They were remunerated according to market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six month ended 31 December 2008.

ACKNOWLEDGEMENT

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

By order of the Board

Chen Te Kuang Mike

DIRECTOR

Hong Kong, 24 March 2009