PALADIN LIMITED

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

INTERIM REPORT OF A SUBSIDIARY – SENSORS INTEGRATION TECHNOLOGY LIMITED

2009

For the six months ended 31 December 2009

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2009

		Six months ended 31 December	
		2009	2008
	NOTE	***HK$***	*HK$*
		(Unaudited)	*(Unaudited)*
Turnover		**–**	–
Other income		**309,071**	2,151,438
Research and development expenses		**(6,306,670)**	(5,929,003)
Administrative expenses		**(7,334,885)**	(5,188,398)
Loss for the period	4	**(13,332,484)**	(8,965,963)
Other comprehensive income (expenses)			
Exchange difference arising on translation of foreign operations		**127,818**	(2,116,732)
Total comprehensive expenses for the period		**(13,204,666)**	(11,082,695)

Condensed Consolidated Statement Of Financial Position

At 31 December 2009

	NOTES	31.12.2009 HK$ (Unaudited)	30.6.2009 HK$ (Audited)
Non-current assets			
Property, plant and equipment	5	**673,193**	762,208
Current assets			
Other receivables and prepayments		**12,018,502**	419,430
Bank balances and cash		**18,679,480**	42,271,918
		30,697,982	42,691,348
Current liabilities			
Other payables and accruals		**2,167,122**	1,094,240
Amount due to immediate holding company	6	**62,574,982**	62,525,579
		64,742,104	63,619,819
Net current liabilities		**(34,044,122)**	(20,928,471)
Net liabilities		**(33,370,929)**	(20,166,263)
Capital and reserves			
Share capital	7	**2,597,634**	2,597,634
Reserves		**(35,968,563)**	(22,763,897)
Deficiency of shareholder's fund		**(33,370,929)**	(20,166,263)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2009

	Share capital *HK$*	Translation reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
At 1 July 2008 (audited)	2,597,634	–	(59,755)	2,537,879
Loss for the year	–	–	(21,231,112)	(21,231,112)
Effect of other comprehensive expenses	–	(1,473,030)	–	(1,473,030)
At 30 June 2009 and 1 July 2009 (audited)	2,597,634	(1,473,030)	(21,290,867)	(20,166,263)
Loss for the period	–	–	(13,332,484)	(13,332,484)
Effect of other comprehensive income	–	127,818	–	127,818
At 31 December 2009 (unaudited)	2,597,634	(1,345,212)	(34,623,351)	(33,370,929)
At 1 July 2008 (audited)	2,597,634	–	(59,755)	2,537,879
Loss for the period	–	–	(8,965,963)	(8,965,963)
Effect of other comprehensive expenses	–	(2,116,732)	–	(2,116,732)
At 31 December 2008 (unaudited)	2,597,634	(2,116,732)	(9,025,718)	(8,544,816)

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2009

	Six months ended 31 December	
	2009	2008
	HK$	*HK$*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(23,953,363)**	(8,784,717)
Investing activities		
Interest received	**230,236**	143,119
Purchase of property, plant and equipment	**(27,669)**	(276,844)
Net cash from (used in) investing activities	**202,567**	(133,725)
Financing activities		
Advance from immediate holding company	**49,403**	62,343,223
Repayment to a director of fellow subsidiaries	**–**	(52,065,107)
Net cash from financing activities	**49,403**	10,278,116
Net (decrease) increase in cash and cash equivalents	**(23,701,393)**	1,359,674
Cash and cash equivalents at beginning of the period	**42,271,918**	54,656,859
Effect of foreign exchange rate changes	**108,955**	(2,111,591)
Cash and cash equivalents at end of the period, representing bank balances and cash	**18,679,480**	53,904,942

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 certain financial instruments, which are measured at fair values.

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 2009.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 July 2009.

The adoption of these new or revised 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 applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HKFRSs (Amendments)	Improvements to HKFRSs 2009[1]
HKAS 24 (Revised)	Related party disclosures[5]
HKAS 32 (Amendment)	Classification of rights issues[3]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[4]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[2]
HKFRS 9	Financial instruments[6]
HK(IFRIC) - INT 14 (Amendment)	Prepayments of a minimum funding requirement[5]
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments[4]

1 Amendments that are effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specially, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measure at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendment require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 has no affect on the classification and measurement of the Group's leasehold land.

The directors of the Company (the "Directors") anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. TAXATION

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

4. LOSS FOR THE PERIOD

	Six months ended 31 December	
	2009	2008
	HK$	*HK$*
Loss for the period has been arrived at after (charging) crediting:		
Depreciation	**(138,529)**	(13,842)
Interest income	**230,236**	143,119

5. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of HK$138,529 (1.7.2008 to 31.12.2008: HK$13,842) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK$28,000 (1.7.2008 to 31.12.2008: HK$277,000) on addition to property, plant and equipment.

6. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

7. SHARE CAPITAL

	Nominal value per share	**Number of shares**	**Amount**
	HK$		*HK$*
Authorised:			
At 1 July 2008, 30 June 2009 and 31 December 2009	0.01	259,763,430	2,597,634
Issued and fully paid:			
At 1 July 2008, 30 June 2009 and 31 December 2009	0.01	259,763,430	2,597,634

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 2009, net current liabilities of the Company were approximately HK$34 million. The current ratio was 0.47. The bank balances were approximately HK$19 million.

As at 31 December 2009, the major outstanding liabilities of the Company was amount due to immediate holding company of approximately HK$63 million and other payables and accruals of approximately HK$2 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 2009, the Company had no material acquisitions and disposals of subsidiaries.

As at 31 December 2009, the Company had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Company employed a total of 133 employees. They were remunerated according to market conditions.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six month ended 31 December 2009.

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, 25 March 2010