

PALADIN LIMITED

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

INTERIM REPORT OF A SUBSIDIARY – SENSORS INTEGRATION TECHNOLOGY LIMITED

2010

For the six months ended 31 December 2010

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010

		Six months ended	
		31 December	
		2010	2009
	NOTE	HK\$	HK\$
		(Unaudited)	(Unaudited)
Turnover		–	–
Other income		1,810,950	309,071
Research and development expenses		(3,476,524)	(6,306,670)
Administrative expenses		<u>(8,189,231)</u>	<u>(7,334,885)</u>
Loss for the period	4	(9,854,805)	(13,332,484)
Other comprehensive expenses			
Exchange difference arising on translation of foreign operations		<u>(467,688)</u>	<u>127,818</u>
Total comprehensive expenses for the period		<u><u>(10,322,493)</u></u>	<u><u>(13,204,666)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	31.12.2010 HK\$ (Unaudited)	30.6.2010 HK\$ (Audited)
Non-current assets			
Property, plant and equipment	6	<u>479,585</u>	<u>612,146</u>
Current assets			
Other receivables and prepayments		1,289,050	2,356,914
Bank balances and cash		<u>1,645,937</u>	<u>15,217,603</u>
		<u>2,934,987</u>	<u>17,574,517</u>
Current liabilities			
Other payables and accruals		6,369,456	6,137,696
Amount due to immediate holding company	7	<u>52,865,586</u>	<u>57,546,944</u>
		<u>59,235,042</u>	<u>63,684,640</u>
Net current liabilities		<u>(56,300,055)</u>	<u>(46,110,123)</u>
Net liabilities		<u>(55,820,470)</u>	<u>(45,497,977)</u>
Capital and reserves			
Share capital	8	2,597,634	2,597,634
Reserves		<u>(58,418,104)</u>	<u>(48,095,611)</u>
Deficiency of shareholder's fund		<u>(55,820,470)</u>	<u>(45,497,977)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010

	Share capital HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2009 (audited)	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 period	–	643,372	(25,975,086)	(25,331,714)
At 30 June 2010 and 1 July 2010 (audited)	2,597,634	(829,658)	(47,265,953)	(45,497,977)
Loss for the period	–	–	(9,854,805)	(9,854,805)
Exchange differences arising on translation	–	(467,688)	–	(467,688)
Total comprehensive expense for the period	–	(467,688)	(9,854,805)	(10,322,493)
At 31 December 2010 (unaudited)	<u>2,597,634</u>	<u>(1,297,346)</u>	<u>(57,120,758)</u>	<u>(55,820,470)</u>
At 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)
Exchange differences arising on translation	–	127,818	–	127,818
Total comprehensive expense for the period	–	127,818	(13,332,484)	(13,204,666)
At 31 December 2009 (unaudited)	<u>2,597,634</u>	<u>(1,345,212)</u>	<u>(34,623,351)</u>	<u>(33,370,929)</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2010

	Six months ended	
	31 December	
	2010	2009
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(8,582,606)</u>	<u>(23,953,363)</u>
Investing activities		
Interest received	49,096	230,236
Purchase of property, plant and equipment	(70,144)	(27,669)
Proceeds from disposal of property, plant and equipment	<u>114,060</u>	<u>—</u>
Net cash from investing activities	<u>93,012</u>	<u>202,567</u>
Financing activities		
(Repayment to) advance from immediate holding company	<u>(4,681,358)</u>	<u>49,403</u>
Net cash (used in) from financing activities	<u>(4,681,358)</u>	<u>49,403</u>
Net decrease in cash and cash equivalents	(13,170,952)	(23,701,393)
Cash and cash equivalents at beginning of the period	15,217,603	42,271,918
Effect of foreign exchange rate changes	<u>(400,714)</u>	<u>108,955</u>
Cash and cash equivalents at end of the period, representing bank balances and cash	<u><u>1,645,937</u></u>	<u><u>18,679,480</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2010

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. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the period ended 31 December 2010 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\$55,820,470 as at 31 December 2010 and a loss of approximately HK\$9,854,805 for the period then ended. The Company’s ultimate holding company, Paladin Limited, 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 unutilized bank credit facility as at 31 December 2010 and the cash flows generated from the operations of Paladin Limited, 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. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

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 2010.

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.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

For the six months ended 31 December 2010

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters ²
HKFRS 7 (Amendments)	Disclosures – transfers of financial assets ²
HKFRS 9	Financial instruments ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of underlying assets ⁴
HKAS 24 (Revised)	Related party disclosures ⁵
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement ⁵

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

² Effective for annual periods beginning on or after 1 July 2011.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ 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.

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. Previously, 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 January 2013, with earlier application permitted.

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.

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

For the six months ended 31 December 2010

4. LOSS FOR THE PERIOD

	Six months ended	
	31 December	
	2010	2009
	HK\$	HK\$
Loss for the period has been arrived at after (charging) crediting:		
Depreciation	161,575	(138,529)
Interest income	<u>49,096</u>	<u>230,236</u>

5. 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.

6. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of HK\$161,575 (1.7.2009 to 31.12.2009: HK\$138,529) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK\$70,000 (1.7.2009 to 31.12.2009: HK\$28,000) on addition to property, plant and equipment.

7. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

8. SHARE CAPITAL

	Nominal value per share HK\$	Number of shares	Amount HK\$
Authorised:			
At 1 July 2009, 30 June 2010 and 31 December 2010	0.01	<u>259,763,430</u>	<u>2,597,634</u>
Issued and fully paid:			
At 1 July 2009, 30 June 2010 and 31 December 2010	0.01	<u>259,763,430</u>	<u>2,597,634</u>

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 2010, net current liabilities of the Company were approximately HK\$56 million. The current ratio was 0.05. The bank balances were approximately HK\$1.6 million.

As at 31 December 2010, the major outstanding liabilities of the Company was amount due to immediate holding company of approximately HK\$53 million and other payables and accruals of approximately HK\$6 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 2010, the Company had no material acquisitions and disposals of subsidiaries.

As at 31 December 2010, the Company had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Company employed a total of 82 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 2010.

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, 23 February 2011