PALADIN LIMITED

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

INTERIM REPORT OF A SUBSIDIARY – SENSORS INTEGRATION TECHNOLOGY LIMITED

2011

For the six months ended 31 December 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2011

		Six months ended 31 December	
		2011	2010
	NOTE	***HK$***	*HK$*
		(Unaudited)	*(Unaudited)*
Turnover		**–**	–
Other income		**442,258**	1,810,950
Research and development expenses		**–**	(3,476,524)
Administrative expenses		**(3,458,022)**	(8,189,231)
Loss for the period	4	**(3,015,764)**	(9,854,805)
Other comprehensive income (expenses)			
Exchange difference arising on translation of foreign operations		**634,099**	(467,688)
Total comprehensive expenses for the period		**(2,381,665)**	(10,322,493)

Condensed Consolidated Statement Of Financial Position

At 31 December 2011

	NOTES	31.12.2011 HK$ (Unaudited)	30.6.2011 HK$ (Audited)
Non-current assets			
Property, plant and equipment	6	**145,329**	147,273
Current assets			
Other receivables and prepayments		**1,478,660**	1,425,268
Amount due from fellow subsidiaries		**49,847,898**	50,847,898
Bank balances and cash		**378,610**	3,014,967
		51,705,168	55,288,133
Current liabilities			
Other payables and accruals		**5,963,002**	6,816,453
Amount due to ultimate holding company		**974,500**	92,950
Amount due to a fellow subsidiary	7	**95,929,530**	95,929,530
Amount due to a director		**12,650,403**	13,881,746
		115,517,435	116,720,679
Net current liabilities		**(63,812,267)**	(61,432,546)
Net liabilities		**(63,666,938)**	(61,285,273)
Capital and reserves			
Share capital	8	**2,597,634**	2,597,634
Reserves		**(66,264,572)**	(63,882,907)
Deficiency of shareholder's fund		**(63,666,938)**	(61,285,273)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2011

	Share capital *HK$*	Translation reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
At 1 July 2010 (audited)	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 period	–	(1,058,474)	(14,728,822)	(15,787,296)
At 30 June 2011 and 1 July 2011 (audited)	2,597,634	(1,888,132)	(61,994,775)	(61,285,273)
Loss for the period	–	–	(3,015,764)	(3,015,764)
Exchange differences arising on translation	–	634,099	–	634,099
Total comprehensive expense for the period	–	634,099	(3,015,764)	(2,381,665)
At 31 December 2011 (unaudited)	2,597,634	(1,254,033)	(65,010,539)	(63,666,938)
At 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)	2,597,634	(1,297,346)	(57,120,758)	(55,820,470)

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2011

	Six months ended 31 December	
	2011	2010
	HK$	*HK$*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(2,874,123)**	(8,582,606)
Investing activities		
Interest received	**215**	49,096
Purchase of property, plant and equipment	**(47,368)**	(70,144)
Proceeds from disposal of property, plant and equipment	**–**	114,060
Net cash (used in) from investing activities	**(47,153)**	93,012
Financing activities		
Advance from (repayment to) immediate holding company	**881,550**	(4,681,358)
Repayment to a director	**(1,231,343)**	–
Net cash used in financing activities	**(349,793)**	(4,681,358)
Net decrease in cash and cash equivalents	**(3,271,069)**	(13,170,952)
Cash and cash equivalents at beginning of the period	**3,014,967**	15,217,603
Effect of foreign exchange rate changes	**634,712**	(400,714)
Cash and cash equivalents at end of the period, representing bank balances and cash	**378,610**	1,645,937

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 condensed consolidated financial statements for the period ended 31 December 2011 have been prepared solely for the information of the Company's management.

In preparing the condensed 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$63,667,000 as at 31 December 2011 and a loss of approximately HK$3,016,000 for the period 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 unutilized bank credit facility as at 31 December 2011 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 except for certain properties and 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 2011.

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.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
	Mandatory effective date of HKFRS 9 and transition disclosures[2]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2015.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2014.

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 December 2011) 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.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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.

4. LOSS FOR THE PERIOD

	Six months ended 31 December	
	2011	2010
	HK$	*HK$*
Loss for the period has been arrived at after (charging) crediting:		
Depreciation	**(48,700)**	(161,575)
Interest income	**215**	49,096

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$48,700 (1.7.2010 to 31.12.2010: HK$161,575) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK$47,000 (1.7.2010 to 31.12.2010: HK$70,000) on addition to property, plant and equipment.

7. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

8. SHARE CAPITAL

	Nominal value per share	**Number of shares**	**Amount**
	HK$		*HK$*
Authorised:			
At 1 July 2010, 30 June 2011 and 31 December 2011	0.01	259,763,430	2,597,634
Issued and fully paid:			
At 1 July 2010, 30 June 2011 and 31 December 2011	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 2011, net current liabilities of the Company were approximately HK$64 million. The current ratio was 0.45. The bank balances were approximately HK$0.4 million.

As at 31 December 2011, the major outstanding liabilities of the Company was amounts due to ultimate holding company of approximately HK$1 million, amount due to a fellow subsidiary of approximately HK$96 million, and due to a director of approximately HK$13 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 2011, the Company had no material acquisitions and disposals of subsidiaries.

As at 31 December 2011, the Company had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Company employed a total of 14 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 2011.

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, 28 February 2012