



# 2014

## Interim Report

For the six months ended 31 December 2014

# PALADIN LIMITED

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

# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors:

Oung Shih Hua, James (*Chairman*)

### Non-executive Director:

Chan Chi Ho

Yuen Chi Wah

### Independent Non-executive Directors:

Kwok Wai Chi

Huang Weizong Martin

## COMPANY SECRETARY

Chan Chi Ho

## AUDITOR

Deloitte Touche Tohmatsu

## PRINCIPAL BANKERS

China CITIC Bank International Limited

Wing Lung Bank Limited

Hang Seng Bank Limited

## SOLICITORS

Gall

David Norman & Co.

## PRINCIPAL REGISTRARS

Appleby Management (Bermuda) Limited

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

## REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## PRINCIPAL OFFICE

Suite 2304, 23rd Floor, Sun Life Tower,

The Gateway,

Harbour City,

Tsim Sha Tsui,

Kowloon,

Hong Kong

## REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

## AUDIT COMMITTEE

Kwok Wai Chi (*Chairman*)

Chan Chi Ho

Huang Weizong Martin

## NOMINATION COMMITTEE

Oung Shih Hua, James (*Chairman*)

Kwok Wai Chi

Huang Weizong Martin

## REMUNERATION COMMITTEE

Kwok Wai Chi (*Chairman*)

Oung Shih Hua, James

Huang Weizong Martin

# MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the “Peak Road Project”) and property investment.

## BUSINESS REVIEW AND PROSPECTS

### Property development

The Peak Road Project located at Nos. 8, 10 and 12 Peak Road, Hong Kong consists of 34 apartment units and a 3-storey private house and the gross floor area is approximately 119,000 square feet. 17 apartment units have been sold in previous years. There was no sale of apartment unit of the Peak Road Project for the six months ended 31 December 2014 because of the slump in residential property market in Hong Kong following demand suppressing policies launched by the Hong Kong Government in 2013.

In the past few years, the management adopted strategy to focus on the completion of the Peak Road Project. Going forward, the management is confident that the returns from the Peak Road Project will significantly improve the Group’s financial position and generate a stable income for the Group.

### Research and development

Sensors Integration Technology Limited, a wholly-owned subsidiary of the Group, has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. The plan is on early stage and it only generated a revenue of approximately HK\$0.5 million for the six months ended 31 December 2014.

### Voluntary unconditional cash offers

On 12 June 2014, Gold Seal Holdings Limited (the “Offeror”) announced in the Announcement that the Offeror would make the offers for all the issued shares not already owned or agreed to be acquired by the Offeror and parties acting in concert with it, at the offer price of HK\$0.25 per ordinary offer share and HK\$0.29 per preference offer share.

On 17 July 2014, the Company issued a response document in relation to the offers to the shareholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Requisition from shareholders and litigation on the composition of the board of directors**

The Company received requisition notice dated 2 May 2014 from the requisitioning shareholders pursuant to which the Requisitioning Shareholders requisitioned for a special general meeting to be convened pursuant to section 74 of the Bermuda Companies Act to consider, and if thought fit, pass resolutions (i) to remove Mr. Law Fong, Mr. Chen Te Kuang, Mike and any other person or persons who may have been appointed as directors of the Company by the Board since the date of the last annual general meeting of the Company and (ii) to appoint Mr. Yuen Chi Wah and Mr. Chan Chi Ho as the directors.

In addition, the company had a dispute on the composition for the board of the directors for the period from 19 May 2014 to 26 August 2014. The current board is of the opinion that Mr. Wong Chong Wei Runrun, Ms. Lam Chi Wai Tammy, Ms. Ng Hei Pak and Ms. Song Fang Zhou were invalidly appointed as directors on 19 May 2014 and were never be the directors of the Company.

In the special general meeting held on 1 August 2014, former directors, namely, Mr. Law Fong, Mr. Chen Te Kuang Mike, Ms. Song Fang Zhou, Mr. Wong Chong Wei Runrun, Ms. Ng Hei Pak and Ms. Lam Chi Wai Tammy (collectively the “Former Directors”) were removed. In addition, Mr. Yuen Chi Wah and Mr. Chan Chi Ho (collectively the “New Directors”) were appointed as the directors of the Company.

On 26 August 2014, the Bermuda Court issued an order declaring that a lawfully convened special general meeting of the Company was held in Hong Kong on 1 August 2014, and that the resolutions to remove the Former Directors and to appoint the New Directors were duly passed.

## **Open offer**

On 26 September 2014, the Company announced to raise up to HK\$125.9 million, before expenses, by way of an open offer to holders of ordinary shares of convertible notes in denominations of HK\$0.25 principal amount each, to be issued at face value, with a share alternative of new ordinary shares at a subscription price of HK\$0.25 per ordinary share. Each convertible note may be converted into one ordinary share. The convertible notes and new ordinary shares will be offered to the shareholders on the basis of assured allotments of one convertible note or one new ordinary share for every two existing Ordinary Shares.

The net proceeds of the open offer were approximately HK\$113 million. The net proceeds from the open offer will be used by Paladin for general working capital purposes.

## **Administration Agreement**

On 14 November 2014, the Group entered into an Administration Agreement (the “Administration Agreement”) with The Anglo Chinese Investment Company, Limited, Anglo Chinese Project Management, Limited and Anglo Chinese Corporate Finance, Limited, (collectively “Anglo Chinese”) for Anglo Chinese to manage the property portfolio of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the Administration Agreement, the Group agrees amongst other things to appoint Anglo Chinese as agent of the Group for the day-to-day management of the Properties, including oversight of building management, the employment of any other firm of building managers and any other contractors required to maintain the fabric and grounds of the Properties; being the primary contact in respect of the Properties between the Group and its tenants and prospective tenants, creditors and bank lenders and the Group and any professional firms. Anglo Chinese as agent of the Group will also negotiate tenancy agreements and deal with all enquiries and maintenance requests by tenants; exercise day to day control of all bank accounts which relate to the Properties or companies owning units in it; and exercise the votes attaching to any shares attaching to the ownership of units in the Properties. The Group will fund the costs incurred by Anglo Chinese in carrying out its work under the Administration Agreement. Anglo Chinese will on behalf of the Group retain one or more property agents to conduct a tender of the units in the Properties. Anglo Chinese will also develop proposals for a complete redevelopment of Peak Road Project. In addition, Anglo Chinese will prepare a proposal for a refurbishment of Peak Road Project including basic proposed alterations and rebuilding and the cost and time to complete it.

The term of the Administration Agreement is 6 months commencing from 1 December 2014 but it may be extended by agreement.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2014, net current liabilities of the Group were approximately HK\$87 million. The current ratio was 0.91. The bank balances and cash were approximately HK\$149 million.

As at 31 December 2014, the Group has outstanding liabilities of approximately HK\$961 million comprising secured bank loans and bank overdrafts of approximately HK\$816 million other payables of approximately HK\$145 million. The bank borrowings are on floating interest rates basis.

The majority of the Group'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 Group has no significant exposure to exchange fluctuation and does not pledge against foreign exchange risk.

The Group's bank loans were secured by investment properties, properties held for sale, deposit placed for a life insurance policy and bank deposits of approximately HK\$1,016 million.

The Group's gearing ratio, total debts divided by total assets, was approximately 81%.

# **MANAGEMENT DISCUSSION AND ANALYSIS**

## **SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS**

During the six months ended 31 December 2014, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2014, the Group had no material investment.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2014, the Group employed a total of 20 employees. They were remunerated according to market conditions.

## **CONTINGENT LIABILITIES**

As at 31 December 2014, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK\$26 million and a provision of HK\$11 million has been made in the consolidated financial statements.

## **INTERIM DIVIDEND**

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2014.

# DIRECTOR REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2014, the interests and short positions of the directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies (the “Model Code”) were as follows:

Ordinary shares of HK\$0.01 each of the Company (long position):

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued ordinary shares
Oung Shih Hua, James	Beneficial owner	7,000,000	0.64%

Convertible redeemable preference shares of HK\$0.01 each of the Company (long position):

Name of director	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares
Oung Shih Hua, James	Beneficial owner	2,500,000	3.51%

Convertible Note issued by the Company (long position):

Name of noteholder	Date of issue	Conversion period	Conversion price per share <i>HK\$</i>	Outstanding as at the Latest Practicable Date	Number of underlying shares	Approximate percentage of the issued convertible notes	Percentage of issued Ordinary Shares
Oung Shih Hua, James	24 November, 2014	24 November, 2014 to 23 November, 2024	0.25	3,500,000	3,500,000	1.13%	0.32%

Save as disclosed above, as at 31 December 2014, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# DIRECTOR REPORT

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, the persons (other than the directors of the Company) who had interests and short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long position:

Name of Shareholder	Capacity	Number of issued Ordinary Shares held	Percentage of issued Ordinary Shares held
Basurto Holdings Limited <i>(Note a)</i>	Interest of a controlled corporation	508,848,531	46.46%
Cityguard Holdings Limited <i>(Note b)</i>	Beneficial owner	508,848,531	46.46%
Five Star Investments Limited <i>(Note c)</i>	Interest of a controlled corporation	508,848,531	46.46%
Gold Seal Holdings Limited <i>(Note d)</i>	Beneficial owner	94,789,336	8.65%
Next Level Corporate Limited <i>(Note e)</i>	Other <i>(Note e)</i>	508,848,531	46.46%
Mr. Oung Da Ming	Beneficial owner	50,000,000	4.57%
	Interest of a controlled corporation <i>(Note a)</i>	508,848,531	46.46%
	Interest of a controlled corporation <i>(Note d)</i>	94,789,336	8.65%
		<hr/>	
		660,637,867	59.68%
		<hr/> <hr/>	
Name of Shareholder	Capacity	Number of issued Preference shares held	Percentage of issued Preference shares held
Goldenfield Equities Limited <i>(Note f)</i>	Beneficial owner	9,099,014	12.79%



# DIRECTOR REPORT

Convertible Note issued by the Company:

Name of noteholder	Date of issue	Conversion period	Conversion price per share <i>HK\$</i>	Outstanding as at the Latest Practicable Date	Number of underlying shares	Approximate percentage of the issued convertible notes	Percentage of issued Ordinary Shares
Next Level Corporate Limited ( <i>Note e</i> )	24 November, 2014	24 November, 2014 to 23 November, 2024	0.25	200,000,000	200,000,000	64.73%	18.26%
Gold Seal Holdings Limited ( <i>Note d</i> )	24 November, 2014	24 November, 2014 to 23 November, 2024	0.25	63,569,605	63,569,605	20.57%	5.80%
Mr. Oung Da Ming	24 November, 2014	24 November, 2014 to 23 November, 2024	0.25	25,000,000	25,000,000	8.09%	2.28%

*Notes:*

- (a) Basurto Holdings Limited is held by Mr. Oung Da Ming on trust for the estate of his deceased mother, Ms. Oung Chin Liang Fung (as to 67%) and his sister, Ms. Lilian Oung (as to 33%).
- (b) Cityguard Holdings Limited, is a wholly-owned subsidiary of Five Star Investments Limited.
- (c) Five Star Investments Limited is directly and individually (through Basurto Holdings Limited) owned as to 67% by the estate of Ms. Oung Chin Liang Fung, grandmother of Dr. Oung Shih Hua, James, and 33% by Ms. Lilian Oung, his aunt. See note (a) above.
- (d) Gold Seal Holdings Limited is solely owned by Mr. Oung Da Ming.
- (e) Next Level Corporate Limited is owned as 25% by Mr. Oung Da Ming, 25% by his son, Mr. Oung Shih How, 25% by Dr. Oung Shih Hua, James, and 25% by Anglo Chinese Nominees, Limited which holds its shares in Next Level Corporate Limited as bare trustee for Basurto Holdings Limited. Next Level Corporate Limited is the owner of equity derivatives relating to Ordinary Shares and a chargee of Ordinary Shares.
- (f) Goldenfield Equities Limited is owned as to 40% by Ms. Lilian Oung, 40% by her son Mr. Chen Te Kuang, Mike, and 20% by Dr. Oung Shih Hua, James.

Other than as disclosed above, as at 31 December 2014, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

## PURCHASE, SALE AND REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## **DIRECTOR REPORT**

### **DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE**

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of The Rules Governing The Listing of Securities on the Stock Exchange (the “Listing Rules”), the following disclosure is included in respect of the Group’s loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the loan agreement entered into between the Group and a bank in June 2006 relating to a 300-month loan facility up to HK\$550 million, a default event would arise if Five Star ceases to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital of the Company and the issued convertible redeemable preference shares of the Company. In April 2010, the terms of loan was revised to 201 months with the facility up to HK\$260 million after an early partial repayment of the loan.

The bank has waived this performance obligation.

### **AUDIT COMMITTEE**

The interim results for the six months ended 31 December 2014 has not been audited by the Group’s auditor, but the Audit Committee has reviewed with management the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2014.

### **CORPORATE GOVERNANCE**

During the period, the Company had complied with the relevant provisions set out in the Corporate Governance Code (the “Code”) based on the principles set out in Appendix 14 to the Listing Rules, save for the following:

- the non-executive directors and independent non-executive directors are not appointed for a specific term in accordance with code provision A.4.1 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the by-laws of the Company.
- under code provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should attend general meetings of the Company. Certain independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 1 December 2014 as they had other business commitment.

## DIRECTOR REPORT

- Under the Code provision A.2.1, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. Dr. Oung Shih Hua, James is the Chairman of the Company and the Company currently does not appoint any new Chief Executive Officer after the removal of Mr. Chen Te Kuang Mike on 1 August 2014. In the opinion of the Board, Dr. Oung temporarily acts as the role of the Chief Executive Officer after the change in composition of the Board. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution.
- Code provision A.5.6 requires that the nomination committee should have a policy concerning diversity of board members. The Company does not consider it necessary to have a policy concerning diversity of board members. Board appointments are based on merit, in the context of the skills, experience and expertise that the selected candidates will bring to the Board. While the Company is committed to equality of opportunity in all aspects of its business and endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives, the Company does not consider a formal board diversity policy will provide measurable benefits to enhance the effectiveness of the Board.
- Under Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. Following the retirement of Mr. Zhu Pei Qing on 1 December 2014, the number of independent non-executive Directors fell below the minimum number required under Rules 3.10(1) of the Listing Rules. In order to fulfill the requirements of Rule 3.10(1) of the Listing Rules, the Company is endeavoring to identify and appoint a new independent non-executive director of the Company as soon as practicable and in any event within three months from 1 December 2014.

The Company will review the current bye-laws as and when it becomes appropriate in future.

### MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors of the Company and the directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 31 December 2014.

By order of the Board  
**Oung Shih Hua, James**  
*CHAIRMAN*

Hong Kong, 25 February 2015

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2014

	NOTES	Six months ended	
		31 December	
		2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover		–	–
Other income		2,361	4,767
Administrative expenses		(29,955)	(21,617)
Fair value change on investment properties	10	6,500	(7,570)
Finance costs	5	(9,082)	(9,659)
Provision for litigations	21	(2,690)	(6,000)
		<hr/>	<hr/>
Loss for the period	7	(32,866)	(40,079)
		<hr/>	<hr/>
<b>Other comprehensive income (expenses)</b>			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange difference arising on translation		3,460	(14)
Fair value loss on available-for-sale investments		(1,343)	(17)
		<hr/>	<hr/>
Other comprehensive income (expenses) for the period		2,117	(31)
		<hr/>	<hr/>
Total comprehensive expenses for the period		(30,749)	(40,110)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share	8		
Basic		(3.44) HK cents	(5.33) HK cents
		<hr/> <hr/>	<hr/> <hr/>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	<i>NOTES</i>	<b>31.12.2014</b> <b>HK\$'000</b> <b>(Unaudited)</b>	30.6.2014 <i>HK\$'000</i> <b>(Audited)</b>
<b>Non-current assets</b>			
Investment properties	10	<b>250,140</b>	243,640
Property, plant and equipment	11	<b>1,063</b>	1,041
Available-for-sale investments		<b>11,557</b>	12,900
Deposit placed for a life insurance policy	12	<b>20,803</b>	20,909
Pledged bank deposits		<b>50,580</b>	50,575
		<hr/> <b>334,143</b> <hr/>	<hr/> 329,065 <hr/>
<b>Current assets</b>			
Properties held for sale	13	<b>710,408</b>	710,408
Other receivables, deposits and prepayments		<b>15,045</b>	13,408
Amount due from a director	14	<b>410</b>	2,231
Bank balances and cash		<b>148,531</b>	19,929
		<hr/> <b>874,394</b> <hr/>	<hr/> 745,976 <hr/>
<b>Current liabilities</b>			
Other payables and accrued charges		<b>115,218</b>	114,858
Amount due to a director of subsidiaries	15	<b>110</b>	231
Amount due to a shareholder	16	<b>19,410</b>	–
Provision for litigations		<b>10,690</b>	8,000
Bank overdrafts		<b>58,666</b>	38,898
Secured bank borrowings	17	<b>756,978</b>	748,440
		<hr/> <b>961,072</b> <hr/>	<hr/> 910,427 <hr/>
Net current liabilities		<hr/> <b>(86,678)</b> <hr/>	<hr/> (164,451) <hr/>
		<hr/> <b>247,465</b> <hr/>	<hr/> 164,614 <hr/>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 31 December 2014

	<i>NOTES</i>	<b>31.12.2014</b> <b>HK\$'000</b> <b>(Unaudited)</b>	30.6.2014 <i>HK\$'000</i> <i>(Audited)</i>
Capital and reserves			
Share capital	18	<b>10,952</b>	9,359
Reserves		<b>222,402</b>	141,916
		<hr/>	<hr/>
		<b>233,354</b>	151,275
		<hr/>	<hr/>
Non-current liabilities			
Convertible redeemable preference shares	19	<b>14,111</b>	13,339
		<hr/>	<hr/>
		<b>247,465</b>	164,614
		<hr/> <hr/>	<hr/> <hr/>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2014

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Convertible notes reserve HK\$'000 (Note 20)	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 July 2014 (audited)	9,359	74,441	6,316	21,766	(5,111)	5,400	-	39,104	151,275
Loss for the period	-	-	-	-	-	-	-	(32,866)	(32,866)
Other comprehensive income (expense) for the period	-	-	-	-	3,460	(1,343)	-	-	2,117
Total comprehensive income (expense) for the period	-	-	-	-	3,460	(1,343)	-	(32,866)	(30,749)
Issue of shares on conversion of redeemable preference shares	2	48	(20)	-	-	-	-	-	30
Open offer of shares (note 18)	1,591	38,178	-	-	-	-	-	-	39,769
Transaction costs attributable to open offer of shares	-	(1,434)	-	-	-	-	-	-	(1,434)
Open offer of convertible notes (note 20)	-	-	-	-	-	-	77,247	-	77,247
Transaction costs attributable to open offer of convertible notes	-	-	-	-	-	-	(2,784)	-	(2,784)
At 31 December 2014 (unaudited)	<u>10,952</u>	<u>111,233</u>	<u>6,296</u>	<u>21,766</u>	<u>(1,651)</u>	<u>4,057</u>	<u>74,463</u>	<u>6,238</u>	<u>233,354</u>
At 1 July 2013 (audited)	7,520	30,303	24,247	21,766	(5,082)	6,517	-	(156,391)	(71,120)
Loss for the period	-	-	-	-	-	-	-	(40,079)	(40,079)
Other comprehensive expense for the period	-	-	-	-	(14)	(17)	-	-	(31)
Total comprehensive expense for the period	-	-	-	-	(14)	(17)	-	(40,079)	(40,110)
At 31 December 2013 (unaudited)	<u>7,520</u>	<u>30,303</u>	<u>24,247</u>	<u>21,766</u>	<u>(5,096)</u>	<u>6,500</u>	<u>-</u>	<u>(196,470)</u>	<u>(111,230)</u>

## Notes:

- (a) The capital reserve represents the equity component of convertible redeemable preference shares.
- (b) The other reserve represents the amount transferred from liability component of convertible redeemable preference shares upon the alteration of the terms of the existing convertible redeemable preferences shares during the year ended 30 June 2008.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months ended 31 December 2014

	Six months ended	
	31 December	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<b>(28,782)</b>	(4,836)
Investing activities		
Repayment from a director	<b>1,821</b>	–
Interest received	<b>36</b>	–
Purchase of property, plant and equipment	<b>(42)</b>	–
Increase in pledged bank deposits	<b>(5)</b>	(5)
Net cash from (used in) investing activities	<b>1,810</b>	(5)
Financing activities		
Proceeds from open offer of convertible notes	<b>77,247</b>	–
Proceeds from open offer of shares	<b>39,769</b>	–
Bank borrowings raised	<b>32,000</b>	–
Advance from a shareholder	<b>19,410</b>	–
Repayment of bank borrowings	<b>(23,462)</b>	(25,498)
Interest paid	<b>(8,280)</b>	(6,876)
Transaction costs attributable to open offer of convertible notes	<b>(2,784)</b>	–
Transaction costs attributable to open offer of shares	<b>(1,434)</b>	–
Repayment to directors of subsidiaries	–	(32,441)
Net cash from (used in) financing activities	<b>132,466</b>	(64,815)
Net increase (decrease) in cash and cash equivalents	<b>105,494</b>	(69,656)
Cash and cash equivalents at beginning of the period	<b>(18,969)</b>	87,199
Effect of foreign exchange rate changes	<b>3,340</b>	(11)
Cash and cash equivalents at end of the period	<b>89,865</b>	17,532
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	<b>148,531</b>	17,532
Bank overdrafts	<b>(58,666)</b>	–
	<b>89,865</b>	17,532



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2014*

## **1. BASIS OF PREPARATION**

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”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **2. BASIS OF PRESENTATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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 current liabilities of the Group amounting to approximately HK\$86,678,000 as at 31 December 2014.

Taking into account the available unutilised bank credit facility of HK\$232,550,000 as at 31 December 2014 and the estimated proceeds from sales of developed properties, 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 condensed 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 fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2014.

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

For the six months ended 31 December 2014

### 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### Convertible notes

When a group entity issues a financial instrument which may require the Group to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuing group entity and the holder of the instrument, the issuing group entity does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuing group entity unless:

- a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;
- b) the issuing group entity can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuing group entity; or
- c) the instrument has all the features and meets the conditions in paragraphs 16A and 16B of HKAS 32.

If the contingent settlement provision that could require settlement in cash or another financial asset (or in another way that would result in the instrument being a financial liability) is not genuine, the settlement provision does not affect the classification of a financial instrument.

A financial instrument issued by a group entity, which includes no contractual obligation for the Group to deliver cash or other financial assets to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavourable to the Group, is classified as an equity instrument and is initially recorded at the proceeds received, net of transaction costs.

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

For the six months ended 31 December 2014

## 3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### Convertible notes (Cont'd)

A non-derivative contract that will or may oblige the Group to deliver a fixed number of a group entity's own ordinary shares (subject to anti-dilutive adjustments) is classified as an equity instrument of the group entity. A derivative contract that will or may be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of a group entity's own equity instruments (subject to anti-dilutive adjustments) is classified as an equity instrument of the group entity.

In addition, in the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and contribution of hedge accountings
HK(IFRIC) – INT 21	Levies

The application of the above amendments to HKFRSs and Interpretations in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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

For the six months ended 31 December 2014

### 4. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 are property development and property investment.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 31 December 2014

	<b>Property development HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>TURNOVER</b>			
External	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESULT</b>			
Segment result	<b>(16,102)</b>	<b>6,158</b>	<b>(9,944)</b>
Other income			<b>2,361</b>
Unallocated corporate expenses			<b>(13,511)</b>
Provision for litigations			<b>(2,690)</b>
Finance costs			<b>(9,082)</b>
			<u>          </u>
Loss for the period			<b>(32,866)</b>
			<u>          </u>

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

For the six months ended 31 December 2014

## 4. SEGMENT INFORMATION (Cont'd)

Six months ended 31 December 2013

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External	–	–	–
RESULT			
Segment result	(9,334)	(7,357)	(16,691)
Other income			4,767
Unallocated corporate expenses			(12,496)
Provision for litigations			(6,000)
Finance costs			(9,659)
Loss for the period			(40,079)

## 5. FINANCE COSTS

	Six months ended 31 December	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings:		
– wholly repayable within five years	2,233	754
– not wholly repayable within five years	6,047	6,123
Interest on convertible redeemable preference shares ( <i>note 19</i> )	802	2,782
	<u>9,082</u>	<u>9,659</u>

## 6. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both interim periods.



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

*For the six months ended 31 December 2014*

### **9. DIVIDENDS**

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

### **10. INVESTMENT PROPERTIES**

The fair value of the Group's investment properties as at 31 December 2014 and 30 June 2014 has been arrived at on the basis of a valuation carried out on that day by LCH (Asia-Pacific) Surveyors Limited, the independent qualified professional property valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited is the member of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties are two developed properties located at Nos.8, 10 and 12 Peak Road which are held by the Company for long-term capital appreciation. These properties are classified as investment properties and are measured using the fair value model.

All the Group's investment properties are situated in Hong Kong with long lease. They were secured to support banking facilities granted to the Group.

During the six months ended 31 December 2014, the gain arising on change in fair value of the investment properties of approximately HK\$6,500,000 (1.7.2013 to 31.12.2013: loss arising on change in fair value of the investment properties of approximately HK\$7,570,000) has been recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

### **11. PROPERTY, PLANT AND EQUIPMENT**

During the period, depreciation of approximately HK\$19,000 (1.7.2013 to 31.12.2013: HK\$1,585,000) were charged in respect of the Group's property, plant and equipment. There is addition of approximately HK\$42,000 (1.7.2013 to 31.12.2013: nil) property, plant and equipment during the interim period.

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

*For the six months ended 31 December 2014*

### **12. DEPOSIT PLACED FOR A LIFE INSURANCE POLICY**

In March 2012, the Company's subsidiary World Modern International Limited ("World Modern") entered into a life insurance policy with an insurance company to insure an Executive Director at that time. Under the policy, the beneficiary and policy holder is World Modern and the total insured sum is US\$10,000,000 (approximately HK\$78,000,000). World Modern is required to pay an upfront deposit of US\$2,806,000 (approximately HK\$21,887,000) including a premium charge at inception of the policy amounting to US\$168,000 (approximately HK\$1,310,000). World Modern can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront payment of US\$2,806,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value"). In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge. The insurance Company will pay World Modern an interest of 4.65% per annum on the outstanding Cash Value of the policy for the first year. Commencing on the 2nd year, the interest will become 2% per annum plus a premium determined by the insurance company on an annual basis.

As at 31 December 2014 and 30 June 2014, the deposit placed for a life insurance policy was pledged to a bank to secure general banking facilities granted to the Group.

### **13. PROPERTIES HELD FOR SALE**

At 31 December 2014 and 30 June 2014, the properties held for sale are stated at cost.

### **14. AMOUNT DUE FROM A DIRECTOR**

The amount represents amount due from Chen Te Kuang, Mike, who is a director of the Company before 1 August 2014. The amount is unsecured, non-interest bearing and repayable on demand.

### **15. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES**

The amount represents amount due to Oung Da Ming, who is a director of the Group's major subsidiaries. The amount is unsecured, non-interest bearing and repayable on demand.

### **16. AMOUNT DUE TO A SHAREHOLDER**

The amount represents amount due to Gold Seal Holdings Limited ("Gold Seal"), which is unsecured, non-interest bearing and repayable on demand.



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

For the six months ended 31 December 2014

## 17. SECURED BANK BORROWINGS

	<b>31.12.2014</b>	30.6.2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured:		
Revolving loans	<b>107,000</b>	75,000
Mortgage loans	<b>643,078</b>	665,010
Other bank loan	<b>6,900</b>	8,430
	<hr/>	<hr/>
	<b>756,978</b>	748,440
	<hr/> <hr/>	<hr/> <hr/>
Comprising amounts following due:		
Within one year	<b>155,039</b>	122,196
In more than one year but not more than two years	<b>48,341</b>	47,953
In more than two years but not more than three years	<b>46,846</b>	47,980
In more than three years but not more than four years	<b>46,877</b>	46,473
In more than four years but not more than five years	<b>47,696</b>	47,284
Over five years	<b>412,179</b>	436,554
	<hr/>	<hr/>
	<b>756,978</b>	748,440
Less: Amounts due within one year shown under current liabilities	<b>(155,039)</b>	(122,196)
Carrying amount of bank loans that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	<b>(601,939)</b>	(626,244)
	<hr/>	<hr/>
Amounts shown under non-current liabilities	–	–
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended 31 December 2014

### 17. SECURED BANK BORROWINGS (Cont'd)

At 31 December 2014, the bank borrowings comprised:

- (i) a revolving loan with an outstanding amount of approximately HK\$35,000,000 (30 June 2014: HK\$35,000,000) that carries interest at a rate of 2% per annum over HIBOR;
- (ii) a mortgage loan with an outstanding amount of approximately HK\$59,514,000 (30 June 2014: HK\$63,019,000) that shall be repayable by 93 monthly installments and carries interest at a rate of 1.95% per annum over HIBOR;
- (iii) a revolving loan with an outstanding amount of approximately HK\$10,000,000 (30 June 2014: HK\$10,000,000) that carries interest at a rate of 2.25% per annum over HIBOR;
- (iv) a mortgage loan with an outstanding amount of approximately HK\$167,111,000 (30 June 2014: HK\$173,371,000) that shall be repayable by 146 monthly installments and carries interest at a rate of 1.2% per annum over HIBOR;
- (v) a mortgage loan with an outstanding amount of approximately HK\$85,618,000 (30 June 2014: HK\$87,785,000) that shall be repayable by 199 monthly installments and carries interest at a rate of 1.75% per annum over HIBOR;
- (vi) other bank loan with an outstanding amount of approximately HK\$6,900,000 (30 June 2014: HK\$8,430,000) that shall be repayable by 27 monthly installments and carries interest at a rate of 2.5% per annum over HIBOR, LIBOR or the Bank's cost of funds, whichever is higher;
- (vii) a mortgage loan with an outstanding amount of approximately HK\$38,482,000 (30 June 2014: HK\$39,573,000) that shall be repayable by 188 monthly installments and carries interest at a rate of 1.25% per annum over HIBOR;
- (viii) a mortgage loan with an outstanding amount of approximately HK\$23,117,000 (30 June 2014: HK\$23,754,000) that shall be repayable by 201 monthly installments and carries interest at a rate of 0.7% per annum above the HIBOR;
- (ix) a mortgage loan with an outstanding amount of approximately HK\$22,363,000 (30 June 2014: HK\$22,980,000) that shall be repayable by 201 monthly installments and carries interest at a rate of 0.7% per annum above the HIBOR;
- (x) a mortgage loan with an outstanding amount of approximately of HK\$50,676,000 (30 June 2014: HK\$52,063,000) that shall be repayable by 202 monthly installments and carries interest at a rate of 0.7% per annum above the HIBOR;

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

For the six months ended 31 December 2014

### 17. SECURED BANK BORROWINGS (Cont'd)

- (xi) a mortgage loan with an outstanding amount of approximately HK\$45,301,000 (30 June 2014: HK\$46,922,000) that shall be repayable by 144 monthly installments and carries interest at a rate of 2.25% per annum over HIBOR;
- (xii) a revolving loan with an outstanding amount of approximately HK\$30,000,000 (30 June 2014: HK\$30,000,000) that carries interest at a rate of 3.5% per annum over HIBOR;
- (xiii) a mortgage loan with an outstanding amount of approximately HK\$89,446,000 (30 June 2014: HK\$91,380,000) that shall be repayable by 206 monthly installments and carries interest at a rate of 3% per annum over HIBOR;
- (xiv) a mortgage loan with an outstanding amount of approximately HK\$61,450,000 (30 June 2014: HK\$64,163,000) that shall be repayable by 128 monthly installments and carries interest at a rate of 0.88% per annum over HIBOR; and
- (xv) a revolving loan with an outstanding amount of approximately HK\$32,000,000 (30 June 2014: nil) that carries interest at a rate of 2.25% per annum over HIBOR.

The range of effective interest rates of the Group's bank borrowings were 0.93% to 5.75% per annum for the six months ended 31 December 2014 (1.7.2013 to 31.12.2013: 0.92% to 3.22% per annum).

All bank borrowings are secured by certain apartments of the Group's properties held for sale and all of the Group's investment properties to the banks. The details of pledged assets are disclosed in note 22.

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

For the six months ended 31 December 2014

## 18. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Numbers of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 July 2013, 30 June 2014 and 31 December 2014	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2013	0.01	752,016,981	7,520
Issue of shares on conversion of convertible redeemable preference shares		183,907,508	1,839
At 30 June 2014	0.01	935,924,489	9,359
Issue of shares on conversion of convertible redeemable preference shares		200,000	2
Open offer of shares ( <i>note 20</i> )		159,076,343	1,591
At 31 December 2014	0.01	1,095,200,832	10,952

All shares issued in prior year and current period rank pari passu in all aspects with other share in issue.

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

For the six months ended 31 December 2014

## 19. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK\$'000
Authorised:		
At 1 July 2013, 30 June 2014 and 31 December 2014	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2013	255,251,037	2,552
Conversion of issued convertible redeemable preference shares into ordinary shares	(183,907,508)	(1,839)
At 30 June 2014	71,343,529	713
Conversion of issued convertible redeemable preference shares into ordinary shares	(200,000)	(2)
At 31 December 2014	71,143,529	711

The convertible redeemable preference shares with nominal value of HK\$0.01 were issued at HK\$0.25 per share on 24 November 2006.

Movement of the convertible redeemable preference shares are as follows:

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 July 2013	39,931	24,247	64,178
Conversion of convertible redeemable preference shares	(28,046)	(17,931)	(45,977)
Interest charged for the year	1,454	–	1,454
At 30 June 2014	13,339	6,316	19,655
Conversion of convertible redeemable preference shares	(30)	(20)	(50)
Interest charged for the period ( <i>note 5</i> )	802	–	802
At 31 December 2014	14,111	6,296	20,407

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

For the six months ended 31 December 2014

### 19. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

*Note:* As announced by the Company on 3 July 2007, the alternation of the terms of the existing convertible redeemable preference shares has been duly approved by the holders of convertible redeemable preference shares at the special general meeting held on 3 July 2007. The approved alternation of the terms of the existing convertible redeemable preference shares are summarised as follows:

**(i) Cumulative dividend**

The right to receive a dividend per convertible redeemable preference share is based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited ("SIT"), a wholly-owned subsidiary of the Company. SIT is an investment holding company with its subsidiaries principally engaged in manufacture of optical sensor systems and optical communication products.

SIT will declare a dividend to its shareholders only if SIT has received written confirmation from the Company that the Company is permitted to declare and pay a dividend in the same amount to the holders of the convertible redeemable preference shares and an undertaking to declare and pay such a dividend.

**(ii) Further issues**

New issues of convertible redeemable preference shares shall be permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in SIT and at the same price.

**(iii) Early redemption at the option of the Company**

The Company has the option, but not the obligation, to redeem all but not a portion of the convertible redeemable preference shares at face value if there are less than 80 million convertible redeemable preference shares in issue.

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

For the six months ended 31 December 2014

## 19. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

### (iv) Conversion rights

Holders of the convertible redeemable preference shares are entitled to convert all or any of their convertible redeemable preference shares into ordinary shares in the Company by paying HK\$0.25 per share to the Company for entitling one ordinary share of the Company of HK\$0.01 each, subject to anti-dilutive adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain changes in share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Holders of the convertible redeemable preference shares are not required to pay any extra amount should they convert their convertible redeemable preference shares into ordinary shares in the Company.

### (v) Redemption

A holder of the convertible redeemable preference shares may by notice in writing to the Company requires the Company to redeem all or any of the outstanding convertible redeemable preference shares, whereupon subject to the requirements of the Bermuda Companies Act. The Company shall pay to such holder a redemption amount equal to the aggregate initial subscription price of such number of convertible redeemable preference shares so redeemed together with the cumulative dividend that has accrued and payable upon the occurrence of any of the following (whichever is the earliest):

- (a) 31 December 2016;
- (b) any consolidation, amalgamation or merger of the Company with any other corporation;
- (c) listing of the ordinary shares of the Company are revoked or withdrawn (except in connection with the simultaneous listing of the ordinary shares on such other internationally recognised stock exchange);
- (d) a directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company; or
- (e) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company.

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

For the six months ended 31 December 2014

### 19. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

#### (vi) Priority

The convertible redeemable preference shares rank in priority to the ordinary shares in the Company as to dividends and a return of the capital paid up on the convertible redeemable preference shares. Once the capital paid up has been returned and all the accumulative dividends has been paid, the convertible redeemable preference shares are not entitled to any further payment from or distributions by the Company.

#### (vii) Voting

The convertible redeemable preference shares do not entitle the holders to attend or vote at meeting of the Company except on resolutions which directly affect their rights or on a winding up of the Company or a return or repayment of capital.

#### (viii) Further issues

New issues of convertible redeemable preference shares has been permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

The net proceeds received from the issue of the convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial instruments: Presentation":

- (i) Debt component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the period is calculated by applying effective interest rate of 11.93% per annum of the debt component for the period since the alternation of the terms of the convertible redeemable preference shares on 3 July 2007.

- (ii) Equity component represents the difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component.



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

For the six months ended 31 December 2014

## 20. CONVERTIBLE NOTES

On 26 September 2014, the Company announced a proposed open offer of unsecured zero coupon participating convertible notes due 2024 in denominations of HK\$0.25 principal amount each, to be issued at face value, on the basis of assured allotments of one convertible note, with the share alternative of one new ordinary share at an open offer of HK\$0.25, for every two existing ordinary shares held. In November 2014, the Company issued an aggregate of 275,934,673 convertible notes and 41,236,560 ordinary shares in assured allotments for which valid applications were received. In December 2014, the Company issued a further 33,051,228 convertible notes and 117,839,783 ordinary shares for which valid applications were received on excess application forms. In total 308,985,901 unsecured zero coupon participating convertible notes and 159,076,343 ordinary shares (see note 18) were issued in the open offer.

The convertible notes bear no interest and mature on 23 November 2024. The convertible notes are convertible into ordinary shares of the Company at the option of the noteholders at any time from the issue date up to the close of business on the tenth last day preceding the maturity date at an initial conversion price of HK\$0.25 each, subject to anti-dilutive adjustments. The convertible notes are denominated in Hong Kong dollars.

Please refer to the Company's offering document dated 29 October 2014 for the details of the terms of the convertible notes. Below is a summary of principal terms of convertible notes.

### (i) Distributions

The convertible notes entitle the noteholders to participate in dividends and/or distributions made to ordinary shareholders.

### (ii) Cash settlement option

Notwithstanding the conversion right of each noteholder in respect of each convertible note, at any time when the delivery of shares deliverable upon conversion of notes is required to satisfy the conversion right, the Company has the option to settle the conversion option in cash at the cash settlement amount (as defined below). If and to the extent that the issue of new ordinary shares upon conversion of the convertible notes will cause the public float of the ordinary shares to fall below the minimum prescribed percentage required under the Listing Rules, the Company shall pay to the relevant noteholder an amount of cash equal to the cash settlement amount in order to satisfy such conversion right.

The cash settlement amount is the product of (i) the number of ordinary shares otherwise deliverable upon exercise of the conversion right in respect of those convertible notes for which the Company has elected the cash settlement option and (ii) the arithmetic average of the volume weighted average price of the ordinary shares for each business day during the five business days last preceding the date of the relevant notice of conversion.

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

For the six months ended 31 December 2014

## 20. CONVERTIBLE NOTES (Cont'd)

### (iii) Redemption at the option of the Company

At any time after issue and prior to the day that is five business days prior to the maturity date, the Company may redeem all the convertible notes at the early redemption amount (as defined below).

The early redemption amount is the product of (i) the number of ordinary shares deliverable upon exercise of the conversion rights in respect of those convertible notes then outstanding and (ii) the arithmetic average of the volume weighted average price of the ordinary shares for each business day during the sixty business days ending on date of the notice from the Company electing to redeem all the convertible notes on the redemption date specified therein.

### (iv) Automatic conversion on maturity

On the maturity date, all then outstanding convertible notes will automatically be converted into ordinary shares. Notwithstanding the automatic conversion of all outstanding convertible notes on the maturity date, in the event that automatic conversion of all outstanding convertible notes on the maturity date will cause the public float of the ordinary shares to fall below the minimum prescribed percentage required under the Listing Rules, the Company will have an option to redeem the convertible notes by paying to the relevant noteholders an amount of cash at the redemption amount (as defined below).

The redemption amount is the product of (i) the number of ordinary shares deliverable upon exercise of the conversion rights in respect of the convertible notes then outstanding and (ii) HK\$0.25.

The requirement of the Company to settle in cash arises only in the event of a breach of the public float requirement under the Listing Rules which is considered by the directors of the Company to be very unlikely to occur based on an assessment made at initial recognition of the convertible notes on the current and potential shareholdings of the Company.

These convertible notes will be automatically converted into a fixed number of ordinary shares of the Company at maturity (subject to anti-dilutive adjustments).

With regard to the conversion option exercisable by the noteholders, at any time from issue date up to the close of business on the tenth last day preceding the maturity date of the convertible notes, the Company will be issuing a fixed number of the Company's ordinary shares (subject to anti-dilutive adjustments) upon such conversion.

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

*For the six months ended 31 December 2014*

## 20. CONVERTIBLE NOTES (Cont'd)

As for the early redemption option and the cash settlement option (upon exercise of conversion right by the noteholders), both of which are exercisable at the Company's option, the Company has no contractual obligation to deliver cash or another financial asset to the noteholders, or to exchange financial assets and liabilities under conditions that are potentially unfavourable to the Company.

Accordingly, the entire convertible notes are classified as an equity instrument of the Company upon initial recognition and the gross proceeds received of approximately HK\$77,247,000 have been recognised in equity in convertible notes reserve. Transaction costs of approximately HK\$2,784,000 are charged to convertible notes reserve immediately.

## 21. CONTINGENT LIABILITIES

The Group is the defendant of the following legal cases as at 31 December 2014, in which the directors are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained:

- (a) On 17 May 2006, Chinese Regency Limited ("Chinese Regency") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood Limited ("Holyrood"), a subsidiary of the Company, for a total sum of not less than HK\$5,760,000, claiming, amongst others, damages for breach of an agreement for sale and purchase of Flat B on the 5th Floor of Block A1 and the car parking space No. 5, Oasis located in Nos. 8, 10 and 12 Peak Road. Chinese Regency filed an amended statement of claim on 24 May 2013, Holyrood filed an amended defence on 5 July 2013, and Chinese Regency filed a reply on 2 September 2013. On 13 February 2014, Holyrood accepted Chinese Regency's sanctioned offer to settle the fitting claim for HK\$45,000. On 21 November 2014, Holyrood sent a Notice of Acceptance of Sanctioned Offer dated 30 October 2014 to Chinese Regency accepting its sanctioned offer of HK\$3,783,793 plus interest at 1% above HSBC Best Lending Rate from the date when the individual payments would have been paid by the tenant up to the date of payment, to settle Chinese Regency's claim for damages. On 5 December 2014, Holyrood effected payment of HK\$3,828,793 to Chinese Regency's Solicitors. Holyrood is also liable to pay Chinese Regency's legal costs up to 21 November 2014, the amount of which is pending further agreement between the parties or subject to taxation by the Court. On 3 February 2015, Holyrood paid HK\$1,858,534.01 in settlement of interests.

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

For the six months ended 31 December 2014

### 21. CONTINGENT LIABILITIES (Cont'd)

(a) (Cont'd)

During the six months period ended 31 December 2014, the sum of legal costs and interests amounted to HK\$2,690,000 was charged to profit or loss. As all claims have now been settled, the parties will proceed to formally dismiss the proceedings following payment of the outstanding costs.

- (b) On 1 June 2007, Gateway International Development Limited (“Gateway”) (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood for a total sum of not less than HK\$5,105,000, claiming, among others, damages for breach of an agreement for sale and purchase of Flat A on the 6th Floor of Block A2 and the car parking space No. 51 located in Nos. 8, 10 and 12 Peak Road, breach of the Deed of Mutual Covenant and nuisance on the development. Judgment was handed down on 1 March 2012 against Holyrood. Holyrood was ordered to pay Gateway the sum of HK\$4,967,189 plus interest. The judge also made a costs order nisi that Holyrood shall pay the legal costs of Gateway on an indemnity basis. Holyrood filed a notice of appeal against the judgment. The appeal was heard on 25 and 26 June 2013. On 11 October 2013, the Court of Appeal delivered judgment dismissing the appeal as regards liability but allowing the appeal as regards quantum (the “Appeal Judgment”). Holyrood was ordered to pay half of Gateway’s costs of appeal. On 13 May 2014, an application for leave to appeal was filed to the Appeal Committee of the Court of Final Appeal to seek leave of the Appeal Judgment. The leave application was heard on 6 October 2014 and leave was refused with indemnity costs awarded against Holyrood.

Pursuant to the Appeal Judgment, the damages awarded to Gateway were reduced to HK\$3,258,328.

During the year ended 30 June 2012, Holyrood paid a deposit of HK\$6,692,000 to the High Court, representing the aggregate of (i) the damages of HK\$4,967,000 and (ii) interest of HK\$1,725,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012. The legal costs of HK\$4,000,000 were also charged to profit or loss during the year ended 30 June 2012. During the six months period ended 31 December 2013, additional legal cost of the appeal to Court of Appeal amounted to HK\$3,000,000 was charged to profit or loss.

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

For the six months ended 31 December 2014

### 21. CONTINGENT LIABILITIES (Cont'd)

(b) (Cont'd)

On 30 October 2014, the parties jointly applied for a Consent Order to pay out of Court: (i) HK\$5,016,910.17 to Gateway, being the judgment debt together with interest (calculated up to and inclusive of 28 October 2014) pursuant to the Appeal Judgment; and (ii) interest accrued on the payment into Court to Holyrood. On 18 November 2014, Holyrood received from the Court HK\$121,272.00, being interest on the payment into Court. On 19 November 2014, Gateway received HK\$5,016,910.17 from the Court being the judgment debt together with interest (calculated up to and inclusive of 28 October 2014). Holyrood paid a further sum of HK\$15,711.30, being interest on the judgment debt from 29 October 2014 to 19 November 2014. Holyrood remains liable to pay the legal costs of Gateway, the amount of which is pending further agreement between the parties or subject to taxation by the Court.

- (c) On 1 June 2007, Sun Crown Trading Limited (“Sun Crown”) (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood for a total sum of not less than HK\$5,091,500, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 6th Floor of Block A2 and the car parking spaces Nos. 47 and 48 located in Nos. 8, 10 and 12 Peak, breach of the Deed of Mutual Covenant and nuisance on the development.

Judgment was handed down on 1 March 2012 against Holyrood. Holyrood was ordered to pay Sun Crown the sum of HK\$4,953,395 plus interest. The judge also made a costs order nisi that Holyrood shall pay the legal costs of Sun Crown on an indemnity basis.

Holyrood filed a notice of appeal against the judgment. The appeal was heard on 25 and 26 June 2013. On 11 October 2013, the Court of Appeal delivered judgment dismissing the appeal as regards liability but allowing the appeal as regards quantum (the “Appeal Judgment”). Holyrood was ordered to pay half of Sun Crown’s costs of appeal. On 13 May 2014, an application for leave to appeal was filed to the Appeal Committee of the Court of Final Appeal to seek leave of the Appeal Judgment. The leave application was heard on 6 October 2014 and leave was refused with indemnity costs awarded against Holyrood.

Pursuant to the Appeal Judgment, the damages awarded to Sun Crown were reduced to HK\$3,260,008.

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

For the six months ended 31 December 2014

### 21. CONTINGENT LIABILITIES (Cont'd)

(c) (Cont'd)

During the year ended 30 June 2012, Holyrood paid a deposit of HK\$6,685,000 to the Court of Appeal, representing the aggregate of (i) the damages of HK\$4,953,000 and (ii) interest of HK\$1,732,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012. The legal cost of HK\$4,000,000 was also charged to profit or loss during the year ended 30 June 2012. During the six months period ended 31 December 2013, additional legal cost of the appeal to Court of Appeal amounted to HK\$3,000,000 was charged to profit or loss.

On 30 October 2014, the parties jointly applied for a Consent Order to pay out of Court: (i) HK\$5,019,633.96 to Sun Crown, being the judgment debt together with interest (calculated up to and inclusive of 28 October 2014) pursuant to the Appeal Judgment; and (ii) interest accrued on the payment into Court to Holyrood. On 18 November 2014, Holyrood received from the Court HK\$121,548.00, being interest on the payment into Court. On 19 November 2014, Sun Crown received HK\$5,019,633.96 from the Court being the judgment debt together with interest (calculated up to and inclusive of 28 October 2014). Holyrood paid a further sum of HK\$15,719.44, being interest on the judgment debt from 29 October 2014 to 19 November 2014. Holyrood remains liable to pay the legal costs of Sun Crown, the amount of which is pending further agreement between the parties or subject to taxation by the Court.

- (d) On 18 July 2011, Century Pacific Holdings Limited (“Century Pacific”) (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood for a total sum of not less than HK\$2,340,000, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 3rd Floor of Block A2 and the car parking space No. 38 located in Nos. 8, 10 and 12 Peak Road, breach of the Deed of Mutual Covenant and nuisance on the development. On 14 September 2012, Holyrood filed a statement of claim. On 24 December 2012, Holyrood filed a defence and on 26 February 2013 Century Pacific filed their reply on the defence. The litigation is still ongoing and there is no further update on the case up to the report.
- (e) On 28 October 2014, Chen Te Kuang Mike (the “Plaintiff”) issued a writ of summons against the Company, claiming for (i) repayment of HK\$10,500,000, being an alleged loan made to a subsidiary of the Company, Magetta Co. Limited, in which the Company allegedly undertook to repay and HK\$2,000,000, being an alleged loan made to the Company, and (ii) interest. On 27 January 2015, the Company filed a Defence and Counterclaim for the breach of the Plaintiff’s fiduciary duties owed to the Company and/or trust when he was a director of the Company and claim for a sum of HK\$410,447 and other relief. The Plaintiff is required to file and serve his reply and Defense to Counterclaim by 24 February 2015. The litigation is still ongoing and there is no further update on the case up to the report.

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

For the six months ended 31 December 2014

## 21. CONTINGENT LIABILITIES (Cont'd)

- (f) On 14 November 2014, a petition under section 724 of the Companies Ordinance was served on the Company, as first respondent, and Cityguard Holdings Limited, Five Star Investments Limited (“Five Star”), Gold Seal, Mr. Oung Da Ming, Dr. Oung Shih Hua, James, Mr. Yuen Chi Wah and Mr. Chan Chi Ho as second to eighth respondents. The petition was filed by Mr. Chen Te Kuang, Mike (as petitioner), a former Director who was removed from office by a resolution passed by the ordinary shareholders in general meeting held on 1 August 2014.

The petition is “On ground that members unfairly prejudiced” and in it the petitioner asserts among other things that Five Star and Gold Seal, as well as Dr. Oung Shih Hua, James, have conducted the affairs of the Company in a manner unfairly prejudicial to the interests of other members of the Company, including the petitioner. The petitioner seeks orders to the following effect:

- (i) proceedings are brought in the names of the Company and two of its subsidiaries against Oung Da Ming, Margaret Uon, Five Star, Cityguard Holdings Limited and/or Gold Seal;
- (ii) the Company to set up a special committee to review the internal controls and risk management systems of the Company, such special committee to engage independent experts to assist it in reviewing the systems and identifying material weaknesses with recommended remedial actions;
- (iii) a receiver of the Company’s business is appointed until the special committee has completed its review and the recommended remedial actions, if any, are implemented;
- (iv) alternatively, the 4th to 8th respondents and their agents/associates be restrained from acting as directors and/or bank signatories of the Company and its subsidiaries until the special committee has completed its review and the recommended remedial actions, if any, are implemented; and
- (v) damages (to be assessed), and any interest on those damages, be paid to the petitioner by any of the 2nd to 8th respondents as the Court thinks fit.



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

For the six months ended 31 December 2014

### 21. CONTINGENT LIABILITIES (Cont'd)

(f) (Cont'd)

Solicitors for the Company attended a case management hearing on 13 February 2015 at which it was ordered, inter alia, that:

- (i) the matter should proceed by way of pleadings (rather than petition supported by evidence);
- (ii) the petitioner is to file points of claim on 27 March 2015;
- (iii) the respondents are to file points of defense on 8 May 2015;
- (iv) the petitioner is to file points of reply on 29 May 2015; and
- (v) a case management conference is to take place on 2 July 2015 for settling down for further directions.

Based on the legal advice obtained by the Group, except for the legal cost stated in (a), (b) and (c) above, the Board is of the opinion that the remaining cases are ongoing and the Group is unable to evaluate the likely outcome of the actions. Accordingly, no provision is considered necessary.

### 22. PLEDGE OR SECURED ASSETS

At the end of the reporting period, the following assets of the Group were pledged or secured to support credit facilities (including letter of guarantee) granted to the Group:

	<b>31.12.2014</b>	30.6.2014
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Properties held for sale	<b>694,603</b>	694,603
Investment properties	<b>250,140</b>	243,640
Deposit placed for a life insurance policy	<b>20,803</b>	20,909
Bank deposits	<b>50,580</b>	50,575
	<hr/> <b>1,016,126</b> <hr/>	<hr/> 1,009,727 <hr/>



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

For the six months ended 31 December 2014

## 23. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties to the Group under the definition of HKAS 24 "Related Party Disclosures".

- (a) Chen Te Kuang Mike, a former director of the Company, has provided personal guarantees in respect of the following:

	<b>31.12.2014</b> <b>HK\$'000</b>	30.6.2014 <i>HK\$'000</i>
Credit facilities granted to the Group	–	180,000

- (b) Lilian Oung, a director of certain subsidiaries and also one of the shareholders of Five Star, has provided personal guarantees in respect of the following:

	<b>31.12.2014</b> <b>HK\$'000</b>	30.6.2014 <i>HK\$'000</i>
Credit facilities granted to the Group	<b>127,550</b>	127,550

- (c) Uon Margaret, a director of certain subsidiaries and also one of the shareholders of Gold Seal, a shareholder of the Company, has provided personal guarantees in respect of the following:

	<b>31.12.2014</b> <b>HK\$'000</b>	30.6.2014 <i>HK\$'000</i>
Credit facilities granted to the Group	<b>320,000</b>	320,000

- (d) Oung Shih Hua, James, a director of the Company, has provided personal guarantees in respect of the following:

	<b>31.12.2014</b> <b>HK\$'000</b>	30.6.2014 <i>HK\$'000</i>
Credit facilities granted to the Group	<b>120,000</b>	–

- (e) Details of the amount due from a director, amount due to a director of the subsidiaries and amount due to a shareholder are set out in notes 14, 15 and 16, respectively.