

PALADIN LIMITED

(incorporated in Bermuda with limited liability)
Stock Code : 495



2016

INTERIM REPORT

For the six months ended
31 December 2016

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Oung Shih Hua, James (*Chairman*)

Non-executive Directors:

Chan Chi Ho

Yuen Chi Wah

Independent Non-executive Directors:

Au Chik Lam Alexander

Huang Weizong Martin

Liu Man Kin Dickson

COMPANY SECRETARY

Chan Chi Ho

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

China CITIC Bank International Limited

SOLICITORS

Gall

David Norman & Co.

PRINCIPAL REGISTRARS

Estera 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

Liu Man Kin Dickson (*Chairman*)

Au Chik Lam Alexander

Chan Chi Ho

Huang Weizong Martin

NOMINATION COMMITTEE

Oung Shih Hua, James (*Chairman*)

Au Chik Lam Alexander

Huang Weizong Martin

Liu Man Kin Dickson

REMUNERATION COMMITTEE

Liu Man Kin Dickson (*Chairman*)

Au Chik Lam Alexander

Huang Weizong Martin

Oung Shih Hua, James

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activity of the Group is property investment.

BUSINESS REVIEW AND PROSPECTS

Properties Investment

Turnover of the group for the six months ended 31 December 2016 under review comprising rental income from its investment properties amounted to approximately HK\$8 million (2015: HK\$3 million). The profit for the period decreased by approximately 95% to HK\$41 million as compared to that of the corresponding period in 2015. Such decrease is mainly due to the one-off gain of HK\$895 million arising from disposal of subsidiaries in relation to the peak road project (the "Peak Road Project") for the six months ended 31 December 2015 which did not occur for the six months ended 31 December 2016.

The disposal of the Peak Road Project contributed a profit of HK\$895 million for the six months ended 31 December 2015. The Group will continue to seek and explore investment opportunities to strength its investment portfolios.

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. It generated a revenue of approximately HK\$0.4 million for the six months ended 31 December 2016.

Convertible redeemable preference shares

The convertible redeemable preference shares (the "Preference Shares") became redeemable at the option of their holders at a price of HK\$0.25 per Preference Share on 31 December 2016. The listing of the Preference Shares was withdrawn on 30 December 2016. After 31 December 2016 all rights of conversion to ordinary shares attached to the Preference Shares lapsed, but the Preference Shares will be redeemable indefinitely.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, net current assets of the Group were approximately HK\$171 million. The current ratio was 1.73. The bank balances and cash were approximately HK\$391 million.

As at 31 December 2016, the Group has outstanding liabilities of approximately HK\$233 million comprising (i) other payables and accrued charges of approximately HK\$112 million, (ii) amounts due to related parties of approximately HK\$11 million and (iii) bank overdrafts and loans of approximately HK\$110 million. The bank borrowings are on floating interest rates basis.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

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 borrowings were secured by investment properties of approximately HK\$202 million.

The Group's gearing ratio as determined by total debt divided by total equity was approximately 25%.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2015, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2016, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group employed a total of 15 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2016, there were contingent liabilities in respect of certain legal proceedings against the Company. The aggregate amount of claims was approximately HK\$13 million at the end of the reporting period. In the opinion of the directors, the claims were remote and no provision 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 2016.

DIRECTOR REPORT

DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the interests and short positions of the directors of the Company and their associates 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 Issuers (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	Number of underlying shares – share options*	Total	Percentage of the issued ordinary shares
Oung Shih Hua, James	Beneficial owner	10,500,000	13,100,000	23,600,000	1.79%
Chan Chi Ho	Beneficial owner	–	13,100,000	13,100,000	0.99%
Yuen Chi Wah	Beneficial owner	–	13,100,000	13,100,000	0.99%

* These represent the shares to be issued and allotted by the Company upon exercise of the options granted under the Share Option Scheme.

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	4.41%

Other than as disclosed above, as at 31 December 2016, none of the directors, chief executive of the Company nor their associates had any interests or short positions in the shares or 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 (Cont'd)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the persons (other than the directors of the Company) who had interests and short positions 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:

Ordinary Shares of HK\$0.01 each of the Company

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	38.49%
Cityguard Holdings Limited (<i>Note b</i>)	Beneficial owner	508,848,531	38.49%
Five Star Investments Limited (<i>Note c</i>)	Interest of a controlled corporation	508,848,531	38.49%
Gold Seal Holdings Limited (<i>Note d</i>)	Beneficial owner	158,358,941	11.98%
Next Level Corporate Limited (<i>Note e</i>)	Other (<i>Note e</i>)	508,848,531	38.49%
	Beneficial owner	150,000,000	11.35%
		658,848,531	49.84%
Mr. Oung Da Ming	Beneficial owner	75,000,000	5.67%
	Interest of a controlled corporation (<i>Note a</i>)	508,848,531	38.49%
	Interest of a controlled corporation (<i>Note d</i>)	158,358,941	11.98%
		742,207,472	56.14%

Underlying Shares – Share option

Name of Shareholder	Capacity	Number of underlying Shares	Percentage of issued Ordinary Shares
Mr. Oung Da Ming	Beneficial owner	13,100,000	0.99%

DIRECTOR REPORT (Cont'd)

Convertible redeemable preference shares of HK\$0.01 each of the Company

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	16.06%

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	50,000,000	50,000,000	74.79%	3.78%

Notes:

- 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%).
- Cityguard Holdings Limited, is a wholly-owned subsidiary of Five Star Investments Limited.
- 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.
- Gold Seal Holdings Limited is solely owned by Mr. Oung Da Ming.
- 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.
- 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 2016, 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.

DIRECTOR REPORT (Cont'd)

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Share Option Scheme

A share option scheme (the "Share Option Scheme") was adopted by the Company on 8 December 2015 for the purpose of providing incentives or rewards to selected participants for their contributions to the Group.

Share options comprising a total of 131,000,000 underlying Shares (the "Options") were granted under the Share Option Scheme to certain employees of the Group and Directors on 30 May 2016 (the "Grant Date"). No option was granted, exercised, cancelled or lapsed under the Share Option Scheme during the period. Details of the movements of the share options during the period are as follows:

Grantees	Outstanding as at 01.07.2016	Number of Options		Lapsed during the Year	Exercise during the Year	Outstanding as at 31.12.2016	Exercise price per Share HK\$	Grant Date	Exercise period
		Granted during the Year	Cancelled during the Year						
Directors									
Oung Shih Hua, James	13,100,000	-	-	-	-	13,100,000	0.335	30 May 2016	30 May 2015 – 29 May 2025
Chan Chi Ho	13,100,000	-	-	-	-	13,100,000	0.335	30 May 2016	30 May 2015 – 29 May 2025
Yuen Chi Wah	13,100,000	-	-	-	-	13,100,000	0.335	30 May 2016	30 May 2015 – 29 May 2025
Employees and others (in aggregate)	91,700,000	-	-	-	-	91,700,000	0.335	30 May 2016	30 May 2015 – 29 May 2025

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the spouses or children under the age of 18 of the directors had any right to subscribe for the securities of the Company or had exercised such rights during the year.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the six months ended 31 December 2016, the Company repurchased 1,990,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of HK\$597,000. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares for the six months ended 31 December 2016.

DIRECTOR REPORT (Cont'd)

MAJOR SUPPLIERS AND CUSTOMERS

The Group did not have any purchases and suppliers during the six months ended 31 December 2016. During the period, both the aggregate revenue attributable to the five largest customers and the largest customer of the Group were 100% of the revenue arising from the investment properties the Group. The major customers are independent parties to the Company during the year. To the knowledge of the Directors, none of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers during the year.

AUDIT COMMITTEE

The interim results for the six months ended 31 December 2016 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 2016.

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 as they had other business commitment.
- 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. In the opinion of the Board, Dr. Oung temporarily acts as the role of the Chief Executive Officer. 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.

DIRECTOR REPORT (Cont'd)

- 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.

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 2016.

By order of the Board
Oung Shih Hua, James
CHAIRMAN

Hong Kong, 23 February 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2016

	NOTES	Six months ended	
		31 December	
		2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover		8,211	3,222
Other income		1,807	1,777
Fair value change on investment properties	9	46,090	(44,200)
Administrative expenses		(13,022)	(15,241)
Gain on disposal of subsidiaries		–	895,348
Share of loss of an associate		(372)	–
Finance costs	4	(1,646)	(4,938)
		<hr/>	<hr/>
Profit for the period	6	41,068	835,968
		<hr/>	<hr/>
Other comprehensive (expenses) income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange difference arising on translation		(592)	1,785
Fair value gain on available-for-sale investments		520	1,632
		<hr/>	<hr/>
Other comprehensive (expenses) income for the period		(72)	3,417
		<hr/>	<hr/>
Total comprehensive income for the period		40,996	839,385
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	7		
Basic		3.11 HK cents	67.0 HK cents
		<hr/> <hr/>	<hr/> <hr/>
Diluted		2.87 HK cents	60.3 HK cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>NOTES</i>	31.12.2016 <i>HK\$'000</i> (Unaudited)	30.6.2016 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties	9	695,140	649,050
Property, plant and equipment	10	2,922	34
Available-for-sale investments		12,580	12,060
Interest in an associate		15,228	–
Deposits placed for life insurance policies	11	34,391	20,926
Deposits paid		8,169	4,915
		768,430	686,985
Current assets			
Other receivables, deposits and prepayments		13,029	15,532
Bank balances and cash		391,008	428,238
		404,037	443,770
Current liabilities			
Other payables and accrued charges		111,928	107,440
Amounts due to related parties	12	11,078	12,870
Bank overdrafts		1,204	43
Secured bank borrowings	13	108,809	97,303
Convertible redeemable preference shares	15	–	15,997
		233,019	233,653
Net current assets		171,018	210,117
		939,448	897,102
Capital and reserves			
Share capital	14	13,220	13,275
Reserves		926,228	883,827
		939,448	897,102

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2016

	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 16)	Share option reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 July 2016 (audited)	13,275	166,403	6,190	16,511	(1,203)	4,560	13,930	25,476	651,960	897,102
Profit for the period	-	-	-	-	-	-	-	-	41,068	41,068
Other comprehensive (expense) income for the period	-	-	-	-	(592)	520	-	-	-	(72)
Total comprehensive (expense) income for the period	-	-	-	-	(592)	520	-	-	41,068	40,996
Issue of shares on conversion of redeemable preference shares	139	3,066	(1,250)	-	-	-	-	-	-	1,955
Lapsed of conversion option	-	-	(4,940)	-	-	-	-	-	4,940	-
Share repurchased	(20)	(577)	-	-	-	-	-	-	-	(597)
Transaction cost attributable to shares repurchase	-	(8)	-	-	-	-	-	-	-	(8)
Cancellation of repurchased shares	(174)	(5,081)	-	5,255	-	-	-	-	-	-
At 31 December 2016 (unaudited)	<u>13,220</u>	<u>163,803</u>	<u>-</u>	<u>21,766</u>	<u>(1,795)</u>	<u>5,080</u>	<u>13,930</u>	<u>25,476</u>	<u>697,968</u>	<u>939,448</u>
At 1 July 2015 (audited)	10,954	111,274	6,286	21,766	(2,761)	2,188	74,447	-	(81,609)	142,545
Profit for the period	-	-	-	-	-	-	-	-	835,968	835,968
Other comprehensive income for the period	-	-	-	-	1,785	1,632	-	-	-	3,417
Total comprehensive income for the period	-	-	-	-	1,785	1,632	-	-	835,968	839,385
Issue of shares upon conversion of convertible note	2,420	58,097	-	-	-	-	(60,517)	-	-	-
At 31 December 2015 (unaudited)	<u>13,374</u>	<u>169,371</u>	<u>6,286</u>	<u>21,766</u>	<u>(976)</u>	<u>3,820</u>	<u>13,930</u>	<u>-</u>	<u>754,359</u>	<u>981,930</u>

Notes:

- The capital reserve represents the equity component of convertible redeemable preference shares.
- 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 2016

	Six months ended 31 December	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Net cash used in operating activities	(7,607)	(19,810)
Investing activities		
Interest received	386	534
Purchase of property, plant and equipment	(3,027)	–
Acquisition of subsidiaries	–	(516,441)
Proceeds from disposal of subsidiaries	–	1,036,696
Deposits paid for acquisition of investment properties	–	(55,588)
Deposit paid for acquisition of property, plant and equipment	(3,254)	–
Withdrawal of pledged bank deposits	–	50,585
Placement of deposit for a life insurance policy	(16,961)	–
Proceeds from disposal of property, plant and equipment	145	–
Investment in an associate	(15,600)	–
Net cash (used in) from investing activities	(38,311)	515,786
Financing activities		
Payment on repurchase of shares	(597)	–
Bank borrowing raised	12,691	61,959
Advance from a shareholder	–	(3,213)
Repayment of bank borrowings	(1,185)	(15,353)
Interest paid	(991)	(4,251)
Transaction costs attributable to open offer of convertible notes	–	–
Transaction costs attributable to repurchase of shares	(8)	–
Repayment to a shareholder	(1,800)	–
Net cash from financing activities	8,110	39,142
Net (decrease) increase in cash and cash equivalents	(37,808)	535,118
Cash and cash equivalents at beginning of the period	428,195	(1,193)
Effect of foreign exchange rate changes	(583)	1,791
Cash and cash equivalents at end of period	389,804	535,716
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	391,008	535,716
Bank overdrafts	(1,204)	–
	389,804	535,716

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 31 December 2016

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. 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2016.

3. SEGMENT INFORMATION

Information reported to the Chairman of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the property development and property investment. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments under HKFRS 8 are as follows:

Property development	Properties construction and redevelopment for sale purpose of which the management is proactively looking for the potential transaction during the year
Property investment	Completed investment properties held for capital appreciation or generating rental income purposes

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

For the Six Months ended 31 December 2016

3. SEGMENT INFORMATION (Cont'd)

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 2016

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External	–	8,211	8,211
RESULT			
Segment result			54,044
Other income			1,807
Share of loss of an associate			(372)
Unallocated corporate expenses			(12,765)
Finance costs			(1,646)
Profit for the period			41,068

Six months ended 31 December 2015

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External	–	3,222	3,222
RESULT			
Segment result			(44,732)
Other income			1,777
Unallocated corporate expenses			(11,487)
Gain on disposal of subsidiaries			895,348
Finance costs			(4,938)
Profit for the period			835,968

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

For the Six Months ended 31 December 2016

4. FINANCE COSTS

	Six months ended 31 December	
	2016	2015
	HK\$'000	HK\$'000
Interest on bank borrowings	991	4,251
Interest on convertible redeemable preference shares (<i>note 15</i>)	655	687
	<u>1,646</u>	<u>4,938</u>

5. TAXATION

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

6. PROFIT FOR THE PERIOD

	Six months ended 31 December	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period has been arrived at after (charging) crediting:		
Depreciation	(138)	(19)
Loss disposal of property, plant and equipment	(145)	(337)
Interest income	386	534
	<u>386</u>	<u>534</u>

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

For the Six Months ended 31 December 2016

9. INVESTMENT PROPERTIES

The investment properties as at 31 December 2016 comprised two residential premises which are located at No.53 Conduit Road and two commercial premises which are located at No. 151 Gloucester Road which were held by the Group for long-term capital appreciation. These properties were classified as investment properties and measured using the fair value model.

The fair value has been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent valuer which is not connected to the Group. LCH (Asia-Pacific) Surveyors Limited is a member of Hong Kong Institute of Surveyors and whose address is 17th Floor, Champion Building, 287-291 Des Voeux Road Central, Hong Kong. The fair value of the investment properties was arrived by using income method and direct comparison method. Commercial premises have been valued by Term and Reversion Method. It estimates the value of the property on an open market basis by discounting the rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. Whereas, residential premises have been valued by direct comparison method which is based on market observable transactions of similar properties in the similar conditions and locations of the subject properties and adjusted to reflect the conditions of the subject properties including property size and property floor level. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The resulting gain on investment properties of HK\$46,090,000 has been recognised directly in profit or loss for the six months ended 31 December 2016 (six months ended 31 December 2015: decreased in fair value of HK\$44,200,000).

10. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$138,000 (six months ended 31 December 2015: HK\$19,000) were charged in respect of the Group's property, plant and equipment. There is addition of approximately HK\$3,027,000 (six months ended 31 December 2015: nil) property, plant and equipment during the interim period.

11. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES

In September 2016, the Group entered into a life insurance policy with an insurance company to insure an Executive Director. Under the policy, the beneficiary and policy holder is East Top (Hong Kong) Limited ("East Top") and the total insured sum is HK\$20,000,000. East Top is required to pay an upfront deposit of HK\$16,961,256 including a premium charge at inception of the policy amounting to HK\$8,351,926. East Top 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 remaining balance of insurance charge plus pre-determined guarantee cash back amount as at the end of each policy year.

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

For the Six Months ended 31 December 2016

11. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES (Cont'd)

In March 2012, the Group entered into a life insurance policy with an insurance company to insure an Executive Director. Under the policy, the beneficiary and policy holder is World Modern International Limited, a former subsidiary of the group and changed to Master Era Limited ("Master Era") in 2015, and the total insured sum is US\$10,000,000 (approximately HK\$78,000,000). Master Era was 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). Master Era 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 Master Era 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.

12. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, non-interest bearing and repayable on demand. An amount of HK\$107,000 (30 June 2016: HK\$95,000) represents amount due to Oung Da Ming, who is the former director of the Group's major subsidiaries. The remaining amount of HK\$10,971,000 (30 June 2016: HK\$12,771,000) represents amount due to Gold Seal Holdings Limited, which is a shareholder of the Company.

13. SECURED BANK BORROWINGS

	31.12.2016 <i>HK\$'000</i>	30.6.2016 <i>HK\$'000</i>
Secured:		
Revolving loans	12,691	–
Mortgage loans	96,118	97,303
	<u>108,809</u>	<u>97,303</u>

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

For the Six Months ended 31 December 2016

13. SECURED BANK BORROWINGS (Cont'd)

Carrying amount based on contractual repayable dates:

	31.12.2016 <i>HK\$'000</i>	30.6.2016 <i>HK\$'000</i>
Within one year	14,933	2,419
Within a period more than one year but not exceeding two years	2,299	2,464
Within a period more than two years but not exceeding five years	7,244	7,683
More than five years	84,333	84,737
	<hr/>	<hr/>
	108,809	97,303
Less: Amounts due within one year shown under current liabilities	(14,933)	(2,419)
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)	(93,876)	(94,884)
	<hr/>	<hr/>
Amounts shown under non-current liabilities	–	–
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2016, the bank borrowings comprised:

- (i) a revolving loan with an outstanding amount of approximately HK\$12,691,000 that carries interest at a rate of 1.35% per annum over HIBOR;
- (ii) a mortgage loan with an outstanding amount of approximately HK\$50,770,000 (30 June 2016: HK\$51,396,000) that shall be repayable by 353 monthly installments and carries interest at a rate of 1.75% per annum over HIBOR;
- (iii) a mortgage loan with an outstanding amount of approximately HK\$45,348,000 (30 June 2016: HK\$45,907,000) that shall be repayable by 353 monthly installments and carries interest at a rate of 1.75% per annum over HIBOR;

The effective interest rates of the Group's bank borrowings were 2.04% per annum for the six months ended 31 December 2016 per annum.

All bank borrowings are secured by all of the Group's investment properties to the banks. The details of pledged assets are disclosed in note 18.

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

For the Six Months ended 31 December 2016

14. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Numbers of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 July 2015, 30 June 2016 and 31 December 2016	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2015	0.01	1,095,377,500	10,954
Issue of shares on conversion of convertible redeemable preference shares		1,072,914	112
Issue of shares on conversion of convertible notes		242,069,605	2,420
Share repurchased		(10,985,000)	(110)
At 30 June 2016	0.01	1,327,535,019	13,275
Issue of shares on conversion of convertible redeemable preference shares		13,911,453	139
Share repurchased		(1,990,000)	(20)
Cancellation of previously repurchased share but not yet cancelled		(17,425,000)	(174)
At 31 December 2016	0.01	1,322,031,472	13,220

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 2016

15. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK\$'000
Authorised:		
At 1 July 2015, 30 June 2016 and 31 December 2016	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2015	71,033,529	710
Conversion of issued convertible redeemable preference shares into ordinary shares	(1,030,000)	(10)
At 30 June 2016	70,003,529	700
Conversion of issued convertible redeemable preference shares into ordinary shares	(13,355,000)	(134)
At 31 December 2016	56,648,529	566

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 2015	14,924	6,286	21,210
Conversion of convertible redeemable preference shares	(149)	(96)	(245)
Interest charged for the year	1,222	–	1,222
At 30 June 2016	15,997	6,190	22,187
Conversion of convertible redeemable preference shares	(1,955)	(1,250)	(3,205)
Interest charged for the period (<i>note 5</i>)	655	–	655
Lapsed of conversion rights	(14,697)	(4,940)	(19,637)
At 31 December 2016	–	–	–

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

For the Six Months ended 31 December 2016

15. 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.

(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\$0.24 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.

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

For the Six Months ended 31 December 2016

15. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

(iv) Conversion rights (Cont'd)

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.

On and after 31 December 2016 and indefinitely thereafter, the Company will redeem any outstanding convertible redeemable preference shares for which a valid notice of redemption request is received by the Company. The Company will pay the holder of the relevant convertible redeemable preference shares the redemption price of HK\$0.25 per convertible redeemable preference shares.

15. 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 8.04% 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 2016

16. 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 14) 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 2016

16. 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 2016

16. 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.

17. CONTINGENT LIABILITIES

The Group is the defendant of the following legal cases as at 31 December 2016, in which the directors are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

- (a) On 28 October 2014, Mike Chen issued a writ of summons against the Company, claiming for (i) repayment of HK\$10,500,000, being an alleged loan made to Magetta Co. Limited in which the Company 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. The Company's counterclaim is for Mike Chen's breach of trust and/or his fiduciary duties owed to the Company. The Company claims, amongst others, for a sum of HK\$410,447 against Mike Chen. On 23 March 2015, Mike Chen filed his Reply and Defence to Counterclaim. The litigation is still ongoing and there is no further update on the case up to the report date.
- (b) 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 Holdings Limited, 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.

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

For the Six Months ended 31 December 2016

17. CONTINGENT LIABILITIES (Cont'd)

The petition is “On ground that members unfairly prejudiced” and in it the petitioner asserts among other things that Five Star and Gold Seal Holdings Limited, 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 Holdings Limited;
- (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;
- (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.

The Company is currently seeking legal advice in relation to the petition. A case management conference is held on 18 February 2016. As at the report date, no trial date has yet been set.

Based on the legal advice obtained by the Group, the directors are 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.

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

For the Six Months ended 31 December 2016

18. 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:

	31.12.2016	30.6.2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment properties	202,040	193,870

19. 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) During the six months ended 31 December 2016, an amount of HK\$209,000 (2015: HK\$682,000) is paid to a related company in which one of the directors of the Company and his close family member have beneficial and controlling interests.
- (b) Details of the amount due to a shareholder are set out in note 12.