

PALADIN LIMITED

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

Interim Report For the six months ended
31 December 2017

2017



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

Liu Man Kin Dickson

Luo Rongxuan

COMPANY SECRETARY

Chan Chi Ho

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

China CITIC Bank International Limited

DBS Bank (Hong Kong) 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

Luo Rongxuan

NOMINATION COMMITTEE

Oung Shih Hua, James (*Chairman*)

Au Chik Lam Alexander

Luo Rongxuan

Liu Man Kin Dickson

REMUNERATION COMMITTEE

Liu Man Kin Dickson (*Chairman*)

Au Chik Lam Alexander

Luo Rongxuan

Oung Shih Hua, James

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group is property investment, research and development of high technology system and applications.

BUSINESS REVIEW AND PROSPECTS

Properties Investment

Turnover of the Group for the six months ended 31 December 2017 under review comprising rental income from its investment properties amounted to approximately HK\$2 million (2016: HK\$8 million).

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 has not generated revenue for the six months ended 31 December 2017.

The Group will actively expand its business to cover a broader spectrum in the field of high technology products. The Group together with an independent third party established an associate known as Imagica Technology Inc. which is owned as to 49% by the Group and established 3 subsidiaries namely, Next Level A.I. Solutions, LLC., Navigs Oy and Pexray Oy, to conduct research and development, software and hardware design for the manufacture and sales of a range of high technology products including:

- portable x-ray systems used in inspection devices for security and counter terrorism applications;
- accurate positioning and image sensing technologies to be integrated into semi-automated agriculture vehicles and advanced driver assistance systems (ADAS);
- advanced algorithm and software solutions used in ADAS, for example, systems for identifying objects, vehicles and people in difficult lighting conditions, forward collision warning systems, lane departure and driver awareness systems, and for surveillance and intelligent traffic markets, for example, advance camera and video systems for traffic monitoring purpose; and
- image sensors such as line scan sensors used in spectroscopy and document scanners, and other sensors used in security applications.

Looking forward, the Group's corporate strategy will gradually expand its focus from property investment to high technology development. The Group look forward to all potential opportunities to expand its high technology business in different areas and diversity the investments.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Convertible redeemable preference shares

On 5 July 2017, the Group redeemed all the convertible redeemable preference shares (the “Preference Shares”). After this redemption, the Preference Shares ceased to exist and all unpaid amounts on them became a liability of the Group.

Open offer

On 31 October 2017, the Company announced that it proposed to raise approximately HK\$67.9 million, before expenses, by way of an open offer to shareholders of convertible notes in denominations of HK\$0.25 principal amount each, to be issued at face value, with new shares in the share alternative at a subscription price of HK\$0.25 per Share. Each convertible note may be converted into one share at the initial conversion price of HK\$0.25 per Conversion Share. The convertible notes and new shares in the share alternative were offered to the qualifying Shareholders on the basis of assured allotments of one convertible note or one new share in the share alternative for every five existing shares. On 12 December 2017, the Board announced the open offer was fully subscribed.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2017, net current assets of the Group were approximately HK\$170 million. The current ratio was 1.85. The bank balances and cash were approximately HK\$363 million.

As at 31 December 2017, the Group has outstanding liabilities of approximately HK\$199 million comprising (i) other payables and accrued charges of approximately HK\$15 million, (ii) amounts due to related parties of approximately HK\$30 million, (iii) bank overdrafts and loans of approximately HK\$107 million and (iv) convertible notes of approximately HK\$47 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 hedge 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 18.9%.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2017, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2017, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed a total of 32 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2017, 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 2017.

DIRECTOR REPORT

DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, 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:

Name of director	Capacity	Number of ordinary shares held (Long position)	Number of underlying shares – share options*	Number of underlying shares – convertible notes	Total	Percentage of interest
Oung Shih Hua, James	Beneficial owner	13,104,166	27,172,190	2,620,833	42,897,187	2.99%
Chan Chi Ho	Beneficial owner	–	27,172,190	–	27,172,190	1.89%
Yuen Chi Wah	Beneficial owner	–	27,172,190	–	27,172,190	1.89%

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

Other than as disclosed above, as at 31 December 2017, 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 2017, 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:

Name of Shareholder	Capacity	Number of Ordinary Shares held (Long position)	Number of underlying shares – share options	Number of underlying shares – convertible notes	Total	Percentage of interest
Basurto Holdings Limited (Note a)	Interest of a controlled corporation	508,848,531	–	101,769,706	610,618,237	42.52%
Cityguard Holdings Limited (Note b)	Beneficial owner	508,848,531	–	101,769,706	610,618,237	42.52%
Five Star Investments Limited (Note c)	Interest of a controlled corporation	508,848,531	–	101,769,706	610,618,237	42.52%
Gold Seal Holdings Limited (Note d)	Beneficial owner	159,388,211	–	44,752,642	204,140,853	14.22%
Next Level Corporate Limited (Note e)	Other (Note e)	508,848,531	–	–	508,848,531	35.43%
	Beneficial owner	150,000,000	–	82,083,333	232,083,333	16.16%
		658,848,531	–	82,083,333	740,931,864	51.59%
Mr. Oung Da Ming	Beneficial owner	75,000,000	27,172,190	15,000,000	117,172,190	8.16%
	Interest of a controlled corporation (Note a)	508,848,531	–	101,769,706	610,618,237	42.52%
	Interest of a controlled corporation (Note d)	159,388,211	–	44,752,642	204,140,853	14.22%
		743,236,742	27,172,190	161,522,348	931,931,280	64.89%

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.

Other than as disclosed above, as at 31 December 2017, 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 271,721,900 underlying Shares (the "Options") were granted under the Share Option Scheme to certain employees of the Group and Directors on 30 May 2016 (the "First Grant Date") and 23 June 2017 (The "Second Grant Date") respectively. Details of the movements of the share options during the period are as follows:

Grantees	Outstanding as at 01.07.2017	Number of Options					Outstanding as at 31.12.2017	Exercise price per Share HK\$	Grant Date	Exercise period
		Granted during the period	Adjusted during the period	Cancelled during the period	Lapsed during the period	Exercise during the period				
Directors										
Oung Shih Hua, James	13,100,000	-	576,400	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,090,000	-	405,790	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
Chan Chi Ho	13,100,000	-	576,400	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,090,000	-	405,790	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
Yuen Chi Wah	13,100,000	-	576,000	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,090,000	-	405,790	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
Employees and others (in aggregate)	91,700,000	-	4,034,800	-	-	-	95,734,800	0.321	30 May 2016	30 May 2016 – 29 May 2026
	91,630,000	-	2,840,530	-	-	-	94,470,530	0.296	23 June 2017	23 June 2017 – 22 June 2027

Notes:

The exercise price for share option and the number of share options were adjusted upon the open offer on 13 November 2017.

Save as disclosed above, at no time during the period 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 period.

DIRECTOR REPORT (Cont'd)

PURCHASE, SALE AND REDEMPTION OF SHARES

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

MAJOR SUPPLIERS AND CUSTOMERS

The Group did not have any purchases and suppliers during the six months ended 31 December 2017. 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 period. 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 2017 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 2017.

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 2017.

By order of the Board
Oung Shih Hua, James
CHAIRMAN

Hong Kong, 28 February 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2017

		Six months ended	
		31 December	
		2017	2016
	NOTES	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	2,157	8,211
Other income		2,324	1,662
Other gains	4	30,572	46,235
Administrative expenses		(24,725)	(13,022)
Share of loss of an associate		(1,497)	(372)
Finance costs	5	(1,256)	(1,646)
		<hr/>	<hr/>
Profit for the period	7	7,575	41,068
		<hr/>	<hr/>
Other comprehensive income (expenses)			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange difference arising on translation		2,447	(592)
Fair value gain on available-for-sale investments		780	520
		<hr/>	<hr/>
Other comprehensive income (expenses) for the period		3,227	(72)
		<hr/>	<hr/>
Total comprehensive income for the period		10,802	40,996
		<hr/> <hr/>	<hr/> <hr/>
Profit (loss) for the period attributable to:			
– Owners of the Company		9,221	41,068
– Non-controlling interests		(1,646)	–
		<hr/>	<hr/>
		7,575	41,068
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)

For the Six Months ended 31 December 2017

		Six months ended	
		31 December	
		2017	2016
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Total comprehensive income (expenses) attributable to:			
– Owners of the Company		12,448	40,996
– Non-controlling interests		(1,646)	–
		<u>10,802</u>	<u>40,996</u>
Earnings per share	8		
Basic		<u>0.68 HK cents</u>	<u>3.11 HK cents</u>
Diluted		<u>0.52 HK cents</u>	<u>2.87 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>NOTES</i>	31.12.2017 HK\$'000 (Unaudited)	30.6.2017 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties	10	608,340	579,520
Property and equipment	11	212,289	211,476
Interest in an associate	12	12,339	13,759
Available-for-sale investments	13	13,396	12,616
Deposits placed for life insurance policies	14	37,593	36,635
Deposits paid for acquisition of property and equipment		–	3,199
		<hr/> 883,957 <hr/>	<hr/> 857,205 <hr/>
Current assets			
Other receivables, deposits and prepayments		6,314	4,628
Bank balances and cash		362,522	354,653
		<hr/> 368,836 <hr/>	<hr/> 359,281 <hr/>
Current liabilities			
Other payables and accrued charges		15,129	12,998
Amounts due to related parties	15	30,211	64,932
Tax payable		298	298
Bank overdrafts		91	575
Secured bank borrowings	16	106,488	107,639
Convertible notes	17b	46,800	–
Convertible redeemable preference shares	18	–	6,446
		<hr/> 199,017 <hr/>	<hr/> 192,888 <hr/>
Net current assets		<hr/> 169,819 <hr/>	<hr/> 166,393 <hr/>
		<hr/> 1,053,776 <hr/>	<hr/> 1,023,598 <hr/>
Capital and reserves			
Share capital	19	14,361	13,428
Reserves		1,040,641	1,009,750
		<hr/> 1,055,002 <hr/>	<hr/> 1,023,178 <hr/>
Equity attributable to owners of the Company		1,055,002	1,023,178
Non-controlling interests		(1,226)	420
		<hr/> 1,053,776 <hr/>	<hr/> 1,023,598 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2017

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000 (Note a)	Translation reserve HK\$'000 (Note b)	Investment revaluation reserve HK\$'000	Convertible notes reserve HK\$'000	Share Option reserve HK\$'000	Accumulated profits HK\$'000	Sub-total HK\$'000	Non-controlling interest HK\$'000	Total HK\$'000
At 1 July 2017 (audited)	13,428	170,985	-	21,445	(341)	5,116	13,930	46,682	751,933	1,023,178	420	1,023,598
Profit for the period	-	-	-	-	-	-	-	-	9,221	9,221	(1,646)	7,575
Other comprehensive income for the period	-	-	-	-	2,447	780	-	-	-	3,227	-	3,227
Total comprehensive income for the period	-	-	-	-	2,447	780	-	-	9,221	12,448	(1,646)	10,802
Issue of shares upon conversion of convertible notes (Note 17a)	168	4,040	-	-	-	-	(4,208)	-	-	-	-	-
Shares cancelled (Note 19)	(10)	(311)	-	321	-	-	-	-	-	-	-	-
Issue of shares on open offer of convertible note with share alternative (Note 17b)	775	18,601	-	-	-	-	-	-	-	19,376	-	19,376
At 31 December 2017 (unaudited)	14,361	193,315	-	21,766	2,106	5,896	9,722	46,682	761,154	1,055,002	(1,226)	1,053,776
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	-	897,102
Profit for the period	-	-	-	-	-	-	-	-	41,068	41,068	-	41,068
Other comprehensive income (expense) for the period	-	-	-	-	(592)	520	-	-	-	(72)	-	(72)
Total comprehensive income (expense) for the period	-	-	-	-	(592)	520	-	-	41,068	40,996	-	40,996
Issue of shares upon conversion of redeemable preference shares (Note 18)	139	3,066	(1,250)	-	-	-	-	-	-	1,955	-	1,955
Lapse of conversion option of convertible redeemable preference shares (Note 18)	-	-	(4,940)	-	-	-	-	-	4,940	-	-	-
Share repurchased and cancelled (Note 19)	(20)	(577)	-	-	-	-	-	-	-	(597)	-	(597)
Transaction cost attributable to shares repurchase	-	(8)	-	-	-	-	-	-	-	(8)	-	(8)
Cancellation of share repurchased in prior period	(174)	(5,081)	-	5,255	-	-	-	-	-	-	-	-
At 31 December 2016 (unaudited)	13,220	163,803	-	21,766	(1,795)	5,080	13,930	25,476	697,968	939,448	-	939,448

Notes:

- (a) The capital reserve represents the equity component of convertible redeemable preference shares (note 18).
- (b) The other reserve consists of 1) 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 of approximately HK\$21,766,000 and 2) treasury share reserve represents shares repurchased but not yet cancelled at the beginning of the reporting period of approximately HK\$321,000 and HK\$5,255,000 as at 1 July 2017 and 1 July 2016, respectively.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months ended 31 December 2017

	Six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash used in operating activities	<u>(15,913)</u>	<u>(7,246)</u>
Investing activities		
Bank interest received	22	25
Purchase of property and equipment (<i>note</i>)	(973)	(3,027)
Deposit paid for acquisition of property and equipment	–	(3,254)
Placement of deposit for a life insurance policy	–	(16,961)
Proceeds from disposal of property and equipment	–	145
Investment in an associate	–	(15,600)
Net cash used in investing activities	<u>(951)</u>	<u>(38,672)</u>
Financing activities		
Payment on repurchase of shares	–	(597)
Bank borrowing raised	–	12,691
Repayment of bank borrowings	(1,151)	(1,185)
Interest paid	(1,229)	(991)
Transaction costs attributable to repurchase of shares	–	(8)
Repayment to shareholders	(34,721)	(1,800)
Redemption of convertible redeemable preference shares	(6,446)	–
Cash received from the open offer of convertible notes with share alternative	67,928	–
Direct attributable costs in relation to open offer of convertible notes with share alternative	(1,623)	–
Net cash from financing activities	<u>22,758</u>	<u>8,110</u>
Net increase (decrease) in cash and cash equivalents	5,894	(37,808)
Cash and cash equivalents at beginning of the period	354,078	428,195
Effect of foreign exchange rate changes	2,369	(583)
Cash and cash equivalents at end of period	<u><u>362,431</u></u>	<u><u>389,804</u></u>
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	362,522	391,008
Bank overdrafts	(91)	(1,204)
	<u><u>362,431</u></u>	<u><u>389,804</u></u>

Note: During the period ended 31 December 2017, the Group acquired property and equipment of approximately HK\$4,172,000 and part of the consideration was set off with deposit paid for acquisition of property and equipment of approximately HK\$3,199,000 in prior year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 31 December 2017

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.

Significant events and transactions in the current interim period

On 31 October 2017, 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 a subscription price of HK\$0.25, for every five existing ordinary shares held. Details are set out in note 17a.

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 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

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

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 30 June 2018.

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

For the Six Months ended 31 December 2017

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the aggregate of the amounts received and receivable for rental income from investment properties.

The Group has been operating in one reportable segment, being properties investment. The Group's chief operating decision maker, being the chief executive of the Company, who reviews the consolidated results before tax and before fair value adjustment of financial instruments, if any, when making decisions about allocating resources and assessing performance.

Geographical information

Substantially all the Group's non-current assets, properties and capital expenditure are located or utilised in Hong Kong. Therefore, no further analysis of geographical information is presented.

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of total revenue of the Group are as follows:

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Customer A	1,447	–
Customer B	710	8,211
	<u>2,157</u>	<u>8,211</u>

4. OTHER GAINS

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Gain on fair value change of investment properties (note 10)	28,820	46,090
Gain on fair value change of convertible notes (note 17)	1,752	–
Gain on disposal of property and equipment	–	145
	<u>30,572</u>	<u>46,235</u>

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

For the Six Months ended 31 December 2017

5. FINANCE COSTS

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Interest on bank borrowings	1,255	987
Interest on bank overdrafts	1	4
Interest on convertible redeemable preference shares (note 18)	–	655
	<u>1,256</u>	<u>1,646</u>

6. TAXATION

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

7. PROFIT FOR THE PERIOD

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Profit for the period has been arrived at after (charging) crediting:		
Bank interest income	22	25
Depreciation	(3,359)	(138)
Interest income from life insurance policies	<u>1,829</u>	<u>1,054</u>

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

For the Six Months ended 31 December 2017

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Earnings:		
Earnings for the purpose of basic earnings per share	9,221	41,068
Effect of dilutive potential shares:		
Interest on convertible redeemable preference shares	–	655
Gain on fair value change of convertible notes	(1,752)	–
	<hr/>	<hr/>
Earnings for the purposes of diluted earnings per share	7,469	41,723
	<hr/> <hr/>	<hr/> <hr/>

	Six months ended	
	31 December	
	2017	2016
	HK\$'000	HK\$'000
Number of shares:		
Weighted average number of ordinary shares		
for the purposes of basic earnings per share	1,351,640,370	1,318,780,160
Effect of dilutive potential shares:		
Convertible redeemable preference shares	–	68,329,059
Convertible notes	75,306,185	66,854,211
	<hr/>	<hr/>
Weighted average number of ordinary shares		
for the purposes of diluted earnings per share	1,426,946,555	1,453,963,430
	<hr/> <hr/>	<hr/> <hr/>

For the six months ended 31 December 2017, the weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been taken into account the ordinary shares repurchased from the market in May 2017 and subsequently cancelled in July 2017.

Dilutive earnings per share for both periods did not assume the exercise of share options granted by the Company because the exercise price of those options was higher than the average market price of the Company.

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.

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

For the Six Months ended 31 December 2017

10. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value has been arrived at on the basis of a valuation carried out by Messrs LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer which is not connected to the Group.

The fair value of the investment properties was arrived by using income method and direct comparison method. For income method, it estimates the value of the property on an open market basis by taking into the account of the current rent receivable from the existing tenancy agreement and the reversionary potential of the property interests by reference to the market sales evidence of commercial comparables around the valuation date and the deferred reversion value. Whereas, direct comparison method is based on market unit rate of similar 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.

Unrealised gain on property revaluation of HK\$28,820,000 has been recognised in profit or loss for the six months ended 31 December 2017 (six months ended 31 December 2016: HK\$46,090,000).

The following table gives information about how the fair values of these investment properties are determined, (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable:

Investment properties held by the Group	Fair value hierarchy	Valuation technique(s)	Significant unobservable inputs(s)	Sensitivity/relationship of unobservable inputs to fair value
Tenant occupied office premises/car parks located in Hong Kong	Level 3	Income approach – Term and Reversion approach with key inputs of vacant possession value	Vacant possession value mainly taking into account of floor level, between the comparable, which ranged from HK\$23,748 to HK\$25,953 (30.6.2017: HK\$21,880 to HK\$26,347) per square feet on saleable area basis.	A significant increase in the vacant possession value used would result in a significant increase in the fair value of the investment properties, and vice versa.
Vacant office premises/car parks located in Hong Kong	Level 3	Direct comparison method, the key inputs are market unit rate of similar properties and applied adjustment rate on difference in the location, view, floor area, lot size and age and condition of the properties under review.	Market unit rate, mainly taking into account the floor level and size, between the comparable, which ranged from HK\$23,748 to HK\$25,953 (30.6.2017: HK\$21,880 to HK\$26,347) per square feet on saleable area basis.	A significant increase in the market unit rate used would result in a significant increase in the fair value of the investment properties, and vice versa.

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

For the Six Months ended 31 December 2017

11. PROPERTY AND EQUIPMENT

During the period, depreciation of approximately HK\$3,359,000 (six months ended 31 December 2016: HK\$138,000) were charged in respect of the Group's property and equipment. There is addition of approximately HK\$4,172,000 (six months ended 31 December 2016: HK\$3,027,000) of property and equipment during the interim period.

12. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments consist of golf club membership in Hong Kong. During the period ended 31 December 2017, the Group recognised gain in change of fair value of HK\$780,000 (2016: HK\$520,000) and credited to investment revaluation reserve.

13. INTEREST IN AN ASSOCIATE

	31.12.2017	30.6.2017
	HK\$'000	HK\$'000
Cost of unlisted investments in an associate	15,600	15,600
Share of post-acquisition losses	(3,338)	(1,841)
Effect of foreign currency exchange difference	77	–
	<hr/> 12,339 <hr/>	<hr/> 13,759 <hr/>

Particulars of the associate of the Group at 31 December 2017 are set out as follows:

Name of entity	Country of incorporation	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting rights held by the Group		Principal activity
			31.12.2017	30.06.2017	31.12.2017	30.06.2017	
Imagica Technology Incorporation	Canada	Canada	49%	49%	49%	49%	Research and development

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

For the Six Months ended 31 December 2017

14. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES

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 Company and changed to Master Era Limited ("Master Era"), a subsidiary of the Company, in 2016, 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 be a variable return with minimum guaranteed interest rate of 2% per annum by the insurance company on an annual basis.

In September 2016, the Group entered into another 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"), a subsidiary of the Company, and the total insured sum is HK\$20,000,000. East Top is required to pay an upfront deposit of approximately HK\$16,945,000 including a premium charge at inception of the policy amounting to HK\$8,610,000. East Top can terminate the policy at any time and receive cash value of the policy at the date of withdrawal, which is determined by the remaining balance of insurance charge and interest (if any) plus pre-determined guarantee cash back amount as at the end of each policy year.

15. AMOUNTS DUE TO RELATED PARTIES

	31.12.2017	30.6.2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Oung Da Ming, a director of the Company's major subsidiaries	110	110
Gold Seal Holdings Limited (<i>Note</i>)	7,521	9,071
Cityguard Holding Limited (<i>Note</i>)	22,580	55,751
	<hr/>	<hr/>
	30,211	64,932
	<hr/> <hr/>	<hr/> <hr/>

The amounts are non-trade, unsecured, non-interest bearing and repayable on demand.

Note: These companies are immediate shareholders of the Company.

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

For the Six Months ended 31 December 2017

16. SECURED BANK BORROWINGS

	31.12.2017 <i>HK\$'000</i>	30.6.2017 <i>HK\$'000</i>
Secured:		
Revolving loans	12,691	12,691
Mortgage loans	93,797	94,948
	<hr/>	<hr/>
	106,488	107,639
	<hr/> <hr/>	<hr/> <hr/>
Carrying amount based on contractual repayable dates:		
Repayable on demand	12,691	12,691
Within one year	2,144	2,370
Within a period more than one year but not exceeding two years	2,208	2,423
Within a period more than two years but not exceeding five years	7,019	7,595
More than five years	82,426	82,560
	<hr/>	<hr/>
	106,488	107,639
Less: Amounts due within one year shown under current liabilities	(14,835)	(15,061)
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)	(91,653)	(92,578)
	<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 2017

16. SECURED BANK BORROWINGS (Cont'd)

At 31 December 2017, 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\$93,797,000 (30 June 2017: HK\$94,948,000) that shall be repayable by remaining 341 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 2.34% (31 December 2016: 2.04%) per annum for the six months ended 31 December 2017.

All bank borrowings are secured by deposit placed for a life insurance policy and leasehold land and buildings. The details of pledged assets are disclosed in note 21.

17. CONVERTIBLE NOTES

a. 2017 Convertible Notes

On 31 October 2017, 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 a subscription price of HK\$0.25, for every five existing ordinary shares held (the "2017 Convertible Notes"). In December 2017, the Company issued an aggregate of 181,313,569 convertible notes and 25,774,298 ordinary shares in assured allotments for which valid applications were received. The Company issued a further 12,894,970 convertible notes and 51,731,337 ordinary shares for which valid applications were received. In total, 194,208,539 unsecured zero coupon participating convertible notes and 77,505,635 ordinary shares (*see note 19*) were issued in the open offer and a gross proceeds of approximately HK\$48,552,000 and HK\$19,376,000 were received, respectively.

2017 Convertible Notes bears no interest and matures 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. These convertible notes are denominated in Hong Kong dollars. Please refer to the Company's offering document dated 28 November 2017 for the details of these terms of the convertible notes. Below is a summary of principal terms of convertible notes.

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

For the Six Months ended 31 December 2017

17. CONVERTIBLE NOTES (Cont'd)

a. 2017 Convertible Notes (Cont'd)

(i) 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.

(ii) Distributions

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

(iii) 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 2017

17. CONVERTIBLE NOTES (Cont'd)

a. 2017 Convertible Notes (Cont'd)

(iv) 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.

(v) Automatic conversion on maturity

On the maturity date, all then outstanding convertible notes will automatically be converted into ordinary shares (subject to anti-dilutive adjustments). 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 shall 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.

Since the Company has contractual obligation to deliver cash to the noteholders in the event of breach of public float requirement under the Listing Rules upon conversion of convertible notes, it results the classification as financial liability and classified as current liabilities as the event of the above said breach is out of the Company's control. Accordingly, the Directors designated the 2017 Convertible Bonds as fair value through profit or loss and initially recognised at fair value with subsequent changes in fair value recognised in profit or loss. Transaction costs of approximately HK\$1,623,000 were charged to profit or loss immediately.

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

For the Six Months ended 31 December 2017

17. CONVERTIBLE NOTES (Cont'd)

a. 2017 Convertible Notes (Cont'd)

The fair values of the convertible bonds as at 31 December 2017 were determined by an independent qualified valuer, LCH (Asia-Pacific) Surveyors Limited, which approximate the cash settlement amount as calculated based on the formula as described in section (iii) above. Key inputs are as follows:

	As at issue date on 20 December 2017 (unaudited)	As at 31 December 2017 (unaudited)
Share price (per share)	HK\$0.245	HK\$0.241
No. of shares convertible	194,208,539	194,208,539

Change in fair value of HK\$1,752,000 was credited to “other gains” in profit or loss during the six months ended 31 December 2017.

b. 2014 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 (the “2014 Convertible Notes”). Details of the major terms and conditions of the convertible notes are set out in notes to the Group’s consolidated financial statements for the year ended 30 June 2017.

During the six months ended 31 December 2017, 16,834,200 convertible notes were converted into ordinary shares at the price HK\$0.25 each.

The conversion price of the 2014 Convertible Notes was adjusted to HK\$0.24 with effective from 13 November, 2017 as a result of the issuance of 2017 Convertible Notes (as defined below).

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

For the Six Months ended 31 December 2017

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK\$'000
Authorised:		
At 1 July 2016, 30 June 2017 and 31 December 2017	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2016	70,003,529	700
Conversion of issued convertible redeemable preference shares	(33,294,391)	(333)
Redemption of issued convertible redeemable preference shares	(10,926,320)	(109)
At 30 June 2017	25,782,818	258
Redemption of issued convertible redeemable preference shares	(25,782,818)	(258)
At 31 December 2017	–	–

The convertible redeemable preference shares with nominal value of HK\$0.01 were issued at HK\$0.25 per share on 24 November 2006. 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 at conversion price of HK\$0.24 per share (as modified in 2014), subject to anti-dilutive adjustment provisions on or before 1 January 2017.

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

For the Six Months ended 31 December 2017

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Movements of the convertible redeemable preference shares are as follows:

	Liability component	Equity component	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2016	15,997	6,190	22,187
Conversion of convertible redeemable preference shares	(7,475)	(3,116)	(10,591)
Interest charged for the period	655	–	655
Lapsed of conversion rights	–	(3,074)	(3,074)
Redemption of convertible redeemable preference shares	(2,731)	–	(2,731)
	<hr/>	<hr/>	<hr/>
At 30 June 2017	6,446	–	6,446
Redemption of convertible redeemable preference shares	(6,446)	–	(6,446)
	<hr/>	<hr/>	<hr/>
At 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>

Details of the major terms and conditions of the convertible redeemable preference shares are set out in notes to the Group's consolidation financial statements for the year ended 30 June 2017.

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

For the Six Months ended 31 December 2017

19. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Numbers of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 July 2016, 30 June 2017 and 31 December 2017	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2016	0.01	1,327,535,019	13,275
Issue of shares on conversion of convertible redeemable preference shares (<i>note 18</i>)		13,911,453	139
Shares repurchased and cancelled (<i>note a</i>)		(1,990,000)	(20)
Cancellation of shares repurchased in prior period		(17,425,000)	(174)
At 31 December 2016	0.01	1,322,031,472	13,220
Issue of shares on conversion of convertible redeemable preference shares (<i>note 18</i>)		20,770,201	208
At 30 June 2017	0.01	1,342,801,673	13,428
Shares cancelled (<i>note b</i>)		(1,065,000)	(10)
Issue of shares on conversion of 2014 Convertible Notes (<i>note 17b</i>)		16,834,200	168
Issue of shares on open offer of 2017 Convertible Notes with share alternative (<i>note 17a</i>)		77,505,635	775
At 31 December 2017	0.01	1,436,076,508	14,361

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

For the Six Months ended 31 December 2017

19. SHARE CAPITAL (Cont'd)

Notes:

- a. The Company repurchased and cancelled 1,990,000 shares on the Stock Exchange in July 2016 at HK\$0.3 each for an aggregated consideration paid of approximately HK\$597,000.
- b. The Company repurchased 1,065,000 shares on the Stock Exchange in May 2017 at HK\$0.3 each for an aggregated consideration paid of approximately HK\$321,000. The shares are subsequently cancelled in July 2017.

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

20. CONTINGENT LIABILITIES

The Group is the defendant of the following legal cases as at 31 December 2017, 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, Mr. Chen Te Kuang, Mike (“Mr. 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, a subsidiary of the Company, 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, 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 2017

20. CONTINGENT LIABILITIES (Cont'd)

(b) (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.

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, the Group did not recognise any provision for any possible losses in relation to cases as at 31 December 2017.

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

For the Six Months ended 31 December 2017

21. PLEDGED OR SECURED ASSETS

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

	31.12.2017	30.6.2017
	HK\$'000	HK\$'000
Deposit placed for a life insurance policy	17,438	17,226
Leasehold land and building	201,526	203,576
	<hr/>	<hr/>
	218,964	220,802
	<hr/> <hr/>	<hr/> <hr/>

22. SHARE-BASED PAYMENT TRANSACTIONS

The Company has adopted share option scheme to grant share options to eligible employees, including the executive directors of the Company. Details of the share options scheme were disclosed in the Group's consolidated financial statements for the year ended 30 June 2017.

No movement of the Company's share options held by the Group's directors and employees except as a result of the issuance of 2017 Convertible Notes, the exercise price per share options granted and the number of shares that can be subscribed for upon the exercise of the outstanding options had been adjusted as follows:

Date of grant	Immediately before completion		Immediately upon completion	
	Exercise price per share HK\$	Number of shares to be issued upon exercise of the outstanding options	Adjusted exercise price per share HK\$	Adjusted number of shares to be issued upon exercise of the outstanding options
30 May 2016	0.335	131,000,000	0.321	136,764,000
23 June 2017	0.305	130,900,000	0.296	134,957,900
		<hr/>		<hr/>
		261,900,000		271,721,900
		<hr/> <hr/>		<hr/> <hr/>

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 inputs are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Financial assets and liabilities	Fair values as at		Fair value hierarchy	Valuation techniques and significant key inputs	Sensitivity
	31.12.2017 <i>HK\$'000</i> (unaudited)	30.06.2017 <i>HK\$'000</i> (audited)			
2017 Convertible Notes	(46,800)	–	Level 2	Expected cash flows are estimated based on underlying share prices (from observable market share price at the end of the reporting period)	N/A
Available-for-sale investments	13,396	12,616	Level 3	Direct comparison method, the key inputs are market price of similar club debentures	An increase in the market price used would result in a significant increase in the fair value of the investments, and vice versa.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Cont'd)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Cont'd)

The directors of the Company considered that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair value.

Fair value measurements and valuation processes

The Directors have engaged independent professional qualified valuers to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation or uses quoted market price matching the specific investments. The Directors work closely with the qualified valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Group reports the findings to the Directors every half year to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

24. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with parties/persons deemed to be “connected persons” by the Stock Exchange which are also the related parties to the Group under the definition of HKAS 24 “Related Party Disclosures”.

- (a) During the six months ended 31 December 2017, a service fee of HK\$102,000 (six months ended 31 December 2016: HK\$313,000) 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 amounts due to related parties are set out in note 15.
- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was HK\$2,401,000 (six months ended 31 December 2016: HK\$2,340,000). The remuneration of directors and key executives are determined by the board of directors after recommendation from the remuneration committee, having regard to the responsibilities of the directors and key executives, the operating results, individual performance and comparable market statistics.

25. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current period presentation.