# Paladin Limited

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

Annual Report
2018

# Contents

# Corporate Information

## DIRECTORS

**Executive Director:**
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 705, 7th 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 are property investment and research and development of high technology system and applications.

## BUSINESS REVIEW AND PROSPECTS

**Properties investment**

Turnover of the Group for the year ended 30 June 2018 comprising rental income from its investment properties amounted to approximately HK$8 million (2017: HK$14 million). The profit for the year decreased by approximately 88% to HK$12 million as compared to that of the corresponding period in 2017. Such decrease is mainly due to decrease in gain on fair value change of investment properties of the Group by 54% as compared with the same period last year.

The Group will continue to seek and explore investment opportunities to strength its investment portfolios.

**Research and development**

The Group actively expands its business to cover a broader spectrum in the field of high technology products. During the year, 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 4 subsidiaries namely, Next Level A.I. Solutions, LLC., Navigs Oy, Pexray Oy and Dynim 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 diversify the investments.

**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 30 June 2018, net current assets of the Group were approximately HK$155 million. The current ratio, current assets divided by current liabilities, was 1.84. The bank balances and cash were approximately HK$332 million.

As at 30 June 2018, the Group has outstanding liabilities of approximately HK$188 million comprising (i) other payables and accrued charges of approximately HK$13 million, (ii) amounts due to related parties of approximately HK$25 million, (iii) bank borrowings of approximately HK$106 million, (iv) convertible notes of approximately HK$41 million and other borrowing of approximately HK$3 million. 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 and overdrafts were secured by leasehold land and building of approximately HK$199 million and deposit placed for a life insurance policy of approximately HK$18 million.

The Group's gearing ratio, total debts divided by total assets, was approximately 15%.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2018, the Group had no material acquisitions and disposals of subsidiaries.

As at 30 June 2018, the Group had no material investment.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed total of 30 employees. They were remunerated according to market conditions.

## CONTINGENT LIABILITIES

As at 30 June 2018, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK$13 million. In the opinion of the directors, the claims were remote and no provision has been made in the consolidated financial statements.

## DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend (2017: nil).

## ACKNOWLEDGEMENT

On behalf of my fellow directors, I wish to thank all staff and employees for their diligence and loyal support during the year under review.

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

Hong Kong
27 September 2018

# Biography of Directors

## EXECUTIVE DIRECTOR

**Dr. Oung Shih Hua, James**, aged 43, joined the Group in 1995. He holds a Bachelor of Science degree in finance and international business from New York University, a master's degree in psychology, and a Doctorate of Philosophy in applied psychology from East China Normal University. Dr. Oung is also a designated Fellow at Life Management Institute (FLMI) and is teaching graduate students part time in the People's Republic of China. He is currently the chairman of a private technology company.

## NON-EXECUTIVE DIRECTORS

**Mr. Yuen Chi Wah**, aged 58, joined the Group as the financial controller in 2007 and was appointed as non-executive director on 1 August 2014. He has over 39 years working experience in corporate finance, financial management, auditing, accounting, and acquisitions gained from certain senior related positions in an audit firm in Hong Kong, and possess extensive experience in management in the field of garments, electronic industrial and property development.

**Mr. Chan Chi Ho**, aged 47, first joined the Group as company secretary in 2003 and was appointed as non-executive director on 1 August 2014. Prior to joining to the Group, Mr. Chan worked in an international accounting firm and served as its audit manager. He has over 23 years of experience in accounting and financial management. Mr. Chan holds a Bachelor of Arts degree in business studies and a master's degree in corporate governance from The Hong Kong Polytechnic University. He is a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He also is a member of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Au Chik Lam Alexander**, aged 74, joined the Group in 2015. Dr. Au holds a Bachelor of Science degree in electrical engineering from The University of California, Los Angeles, a Master of Science degree and a Doctor of Philosophy in electrical engineering from Stanford University. Dr. Au has worked in technology industries in the United States and Taiwan for many years. He currently is a founder and Chief Executive Officer of a private company.

**Mr. Liu Man Kin Dickson**, aged 45, joined the Group in 2015 as an independent non-executive director. He has over 23 years of experience in auditing, tax planning, management consulting and company restructuring. He is currently a sole proprietor of an audit firm and a practicing member of the Hong Kong Institute of Certified Public Accountants.

**Mr. Luo Rongxuan**, aged 63, joined the Group in 2017 as an independent non-executive director. He graduated from Radio Department of Anhui University. Mr. Luo has over 35 years of experience in radio management. He was an engineer in Office of Radio Regulation Committee in Anhui Province and the head of the radio monitoring station, and then he was a director of the infrastructure division of Anhui Economic and Information Technology Commission. He worked at Anhui Economic and Information Technology Commission as a director of the private enterprise division before his retirement in 2014.

# Corporate Governance Report

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company. During the year ended 30 June 2018, the Company has complied with all the code provisions (the "Code") in the Corporate Governance Code set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for certain deviations disclosed herein.

The Company periodically reviews its corporate governance practices to ensure that they continuous meeting the requirements of the Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the year ended 30 June 2018.

## BOARD OF DIRECTORS

The Board comprises one executive director, two non-executive directors and three independent non-executive directors. The names and biographical details of the directors of the Company and the relationship amongst them, if any, are set out in the section "Biography of Directors" of this annual report.

The composition of the Board represents a mixture of expertise specializing in management, property market industry, electronics industry, accounts and finance and corporate development. All of the Directors have comprehensive qualifications and experience in and exposure to diversified businesses which is beneficial to the business development of the Company.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective directors.

The Board is also entrusted with the overall responsibility of developing, maintaining and reviewing sound and effective corporate governance policies within the Group and is committed to ensuring that an effective corporate governance is put in place to continuously review and improve the corporate governance practices within the Group.

There are agreed procedures for the directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

Independent non-executive directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgment. At least one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Listing Rules. The Board has received from each independent non-executive director a written annual confirmation of independence. All the independent non-executive directors meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operation and the internal control system of the Group. Apart from these regular meetings, Board meetings are also held to approve major or special issues.

During the year ended 30 June 2018, four Board meetings, the annual general meeting for the year 2017 ("AGM") were held with details of the directors' attendance set out below:

| | Attendance/ Number of meetings | |
|---|---|---|
| | **Board meetings** | **AGM** |
| **Executive director** | | |
| Oung Shih Hua, James | 6/8 | 0/1 |
| **Non-executive directors** | | |
| Chan Chi Ho | 8/8 | 1/1 |
| Yuen Chi Wah | 8/8 | 1/1 |
| **Independent non-executive directors** | | |
| Au Chik Lam Alexander | 4/8 | 0/1 |
| Liu Man Kin Dickson | 4/8 | 1/1 |
| Luo Rongxuan | 2/8 | 0/1 |

Code provision A.6.7 requires that the independent non-executive director and the non-executive director should attend the general meetings of the Company. However, due to other business commitments, certain independent non-executive directors were unable to attend the AGM.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. However, the Company will review the current structure as and when it becomes appropriate in future.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Under the Code provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election.

Although the non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

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

The Board has established a nomination committee to review the structure, size and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new directors is reserved for the Board's approval.

The nomination committee ensures that the Board comprises members with mixed skills and experience with appropriate knowledge necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. The nomination committee takes into account of that person's skill, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board.

According to the Bye-Laws of the Company, a newly appointed director shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at that general meeting.

In addition, at each annual general meeting one-third of the Directors (those appointed in that year shall not be counted in determining the number of directors), for the time being or if their number is not a multiple of three, the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

The Company has arranged appropriate insurance cover in respective of legal action against the directors and senior officers.

## NOMINATION COMMITTEE

A nomination committee was established on 26 March 2012, currently comprising the Chairman of the Company, Dr. Oung Shih Hua, James, and three independent non-executive directors, being Dr. Au Chik Lam Alexander and Mr. Liu Man Kin Dickson and Mr. Luo Rongxuan. Dr. Oung Shih Hua, James is the chairman of the nomination committee. The terms of reference of the nomination committee are available on the respective websites of the Company and the Stock Exchange.

The main duties and responsibilities of the nomination committee are to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, assess the independence of independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of Directors.

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.

No nomination committee meeting was held during the year ended 30 June 2018.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors namely Mr. Liu Man Kin Dickson, Dr. Au Chik Lam Alexander and Mr. Luo Rongxuan and one executive director namely Dr. Oung Shih Hua, James. Mr. Liu Man Kin Dickson is the Chairman of the remuneration committee. The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company. The terms of reference of the remuneration committees are available on the respective websites of the Company and the Stock Exchange.

No remuneration committee meeting was held during the year ended 30 June 2018.

## AUDIT COMMITTEE

An audit committee currently comprising three independent non-executive directors, being Mr. Liu Man Kin Dickson, Dr. Au Chik Lam Alexander, Mr. Luo Rongxuan and one non-executive director, Mr. Chan Chi Ho. Mr. Liu Man Kin Dickson is the chairman of the audit committee. Amongst the audit committee members, Mr. Liu has the appropriate professional qualification and experience in financial matters as required by Rule 3.21 of the Listing Rules.

The main duties and responsibilities of the audit committee are to review the Company's financial information such as the interim and annual results, financial reporting principles and practices; to recommend the appointment and reappointment or removal of the external auditor; to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditor; to oversee the financial reporting system and the internal control and risk management system of the Company. The terms of reference of the audit committee are available on the respective websites of the Company and the Stock Exchange.

Two audit committee meetings were held during the year ended 30 June 2018. The attendance of each member (either in person or by phone) during the year are set out as follows:

| | **Number of meetings attended/ Number of meetings held** |
|---|---|
| Liu Man Kin Dickson *(Chairman)* | 2/2 |
| Au Chik Lam Alexander | 2/2 |
| Chan Chi Ho | 2/2 |
| Luo Rongxuan | 0/2 |

During the year ended 30 June 2018, the Audit Committee met mainly to review the Company's annual report for the year ended 30 June 2017, the Company's interim report for the six months ended 31 December 2017, the adequacy of resources, accounting staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and the internal control system and related issues.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Company. In preparing the financial statements for the year ended 30 June 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statement of the Company is set out in the Independent Auditor's Report of this annual report.

## INDUCTION AND PROFESSIONAL DEVELOPMENT

Every newly appointed Director receives a comprehensive, formal and tailored induction on the first occasion of his appointment to make sure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities in the Company.

During the year under review, directors received regular updates and presentations on changes and developments to the Group's business and on the latest developments in the laws, rules and regulations relating to Directors' duties and responsibilities. Respective seminars will be provided by Tang Tso & Lau, Solicitors, on the topics relating to the roles, functions and duties of the directors were organized so as to update and develop the Board members' expertise.

Directors' training is an ongoing process. All Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide their records of training they received to the company secretary for record.

Below is a summary of training received by Directors for the year ended 30 June 2018:

| | **Attending seminars/ in-house training on regulatory development or directors' duties** |
|---|---|
| **Executive Director** | |
| Oung Shih Hua, James | ✓ |
| **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

The Company Secretary is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of directors.

During the year under review, the company secretary has attended relevant professional seminars to update his skills and knowledge. He met the training requirement set out in Rule 3.29 of the Listing Rules.

## EXTERNAL AUDITOR AND THEIR REMUNERATION

The Company's external auditor is Deloitte Touche Tohmatsu. The responsibilities of the auditor with respect to the financial reporting are set out in the Independent Auditor's Report of this Annual Report. The independence of the external auditor is monitored by the audit committee which is also responsible for making recommendations to the Board on the appointment of the external auditor as well as approving their terms of engagement and remuneration. Apart from the statutory audit of the Group's consolidated financial statements, the Board engaged the auditor to perform certain agreed upon procedures in relation to the open offer for raising fund during the year.

For the year ended 30 June 2018, the fees payable by the Group to the external auditor in respect of audit and non-audit services provided by them were as follows:

| | *HK$'000* |
|---|---|
| Audit services | 817 |
| Non-audit services | 696 |
| Total | 1,513 |

## INTERNAL CONTROL

The Board is of the opinion that a sound internal control system will help achieving the Group's business objectives, safeguarding the Group's assets, contribute to the effectiveness and efficiency of operations, the reliability of financial reporting and the Group's compliance with applicable laws and regulations.

The Group's internal control procedures include a comprehensive budgeting, information reporting and performance monitoring system.

Business plans and budgets are prepared annually by the management of each business unit and are subject to review and approval by the Executive Directors. During the processes, management identifies, evaluates and reports on the likelihood and potential financial impact of significant business risks. Various guidelines and procedures have been established for the approval and control of operating expenses, capital expenditures, project investments, unbudgeted items and acquisitions.

The executive directors review monthly management reports and hold periodical meetings with the senior operational and finance management to discuss business performance, budget variances, forecasts, market outlooks, and to address any accounting and finance related matters.

The Board acknowledges its responsibility for the Group's system of internal controls and for reviewing its effectiveness through the audit committee. The Group has also engaged an independent advisor to conduct various agreed reviews over the Group's internal control system in order to assist the Board in reviewing the effectiveness of the internal control system of the Group. The reviews are aimed to cover all material controls, including financial, operational and compliance controls and risk management functions of the Group. The report from the independent advisor has been presented to and reviewed by the Audit Committee and the Board. Appropriate recommendations for further enhancing the internal control system have been adopted.

## SHAREHOLDERS' RIGHTS

### (I) Convene a Special General Meeting

Pursuant to Section 74 of the Bermuda Companies Act 1981, shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring a special general meeting ("SGM") to be called by the Board. The written requisition (i) must state the purposes of the SGM, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for attention of the company secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified with the Company's share registrars and upon their confirmation that the requisition is proper and in order, the company secretary will ask the Board to convene a SGM by serving sufficient notice to all shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, the SGM will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists or any of them representing more than one-half of the total voting rights of all of them may convene a SGM, but any SGM so convened shall not be held after expiration of three months from the said date of deposit of the requisition. A SGM convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in any SGM to be convened by the Board.

### (II) Send Enquiries to the Board

The Company's corporate website provides email address, postal address, fax number and telephone number by which shareholders may at any time address their concerns or enquiries to the Company's Board.

## INVESTOR RELATIONS

During the year ended 30 June 2018, there has not been any change in the Company's constitutional documents.

In accordance with the requirements set forth in Appendix 27 Environmental, Social and Governance Reporting Guide (the "ESG Guide") of the Listing Rules, the Group hereby presents the Environmental, Social and Governance report for the year ended 30 June 2018.

The Board is responsible for the Group's Environmental, Social and Governance ("ESG") strategy and reporting including evaluating and determining ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Group has engaged the management and staff of the Group across the Group's key subsidiaries and functions to review their operations to identify relevant ESG issues to the Group. ESG issues which are considered as material to the Group' as well as to the internal key stakeholders are included in this ESG report.

## A. ENVIRONMENTAL

The Group has established environmental policies for the Group's employees which covered the material environmental issues including emissions, use of resources and other environmental impact as described in the sections below. The Group also comply with relevant environmental laws and regulations and did not note any cases of material non-compliance during the year ended 30 June 2018.

### A1 Emissions

*A1.1 Air Emissions*

Emissions Data from Gaseous Fuel Consumption

As the Group is principally engaged in property investment and high technology system and its application, towngas and liquefied petroleum gas consumed in the office are considered insignificant. Accordingly, emission data in this respect is not disclosed after assessment of materiality.

Emissions Data from Vehicles

Emissions from operations are mainly generated from vehicles of the Group. For the purpose of complying with the disclosure requirements under the ESG Guide, details of air emissions data for the year ended 30 June 2018 are shown as follows:

| **Type of emissions** | **Weight** *(Kg)* |
|---|---|
| Nitrogen oxides ($NO_x$) | 5.5 |
| Sulphur oxides ($SO_x$) | 0.1 |
| Particulate matter (PM) | 0.4 |

*A1.2 Greenhouse Gas Emissions*

With reference to HKEX Guidance Document, greenhouse gas ("GHG") emissions (direct and indirect) can be broadly classified into the following separate scopes:

Scope 1 – Direct emissions from operations that are owned or controlled by the Group. The main source of direct emission is consumption of gasoline by vehicles controlled by the Group;

Scope 2 – Energy indirect emissions resulting from the electricity purchased; and

Scope 3 – Other indirect emissions that occur outside the reporting entity, including upstream and downstream emissions.

The main source of the GHG emissions, measured in terms of carbon dioxide equivalent ("$CO_2e$"), arising from our business activities for the year ended 30 June 2018 is mainly the consumption of gasoline and electricity purchased from power companies. Other indirect emissions under Scope 3 that occur outside the Group are not significant and accordingly such emission data are not produced in this report.

GHG emissions data for the year ended 30 June 2018 are as follows:

| | | **$CO_2e$ emissions** *(Tons)* |
|---|---|---|
| Scope 1 | Gasoline consumed by vehicles | 22 |
| Scope 2 | Electricity purchased | 109 |
| | Total | 131 |

The Group adopted green office practices to reduce the impact on the environment and internet meeting are encouraged to avoid unnecessary travel.

*A1.3 Hazardous Waste*

No significant hazardous wastes and pollutants such as hazardous chemicals are discharged due to its business nature and accordingly such emissions data are not produced in this report.

*A1.4 Non-hazardous Waste*

In view of the business nature of the Group and also the measures being taken by the Group to mitigate non-hazardous as more described in Section A1.6 below, non-hazardous wastes produced such as paper waste and water waste are insignificant.

*A1.5 Measures to Mitigate Emissions*

The main source of emissions of the Group is the use of energy. The Group has developed various energy-saving initiatives to reduce its emissions. Please refer to the Section A2 "Use of Resources" below for details.

*A1.6 Measures to Mitigate Non-hazardous Waste*

The Group, has managed to keep their level of non-hazardous waste low as a result of the Group's policy in reducing wastes. In order to reduce paper waste, the Group advocates the policy "Reduce, Reuse and Recycle", and encourages its staff to reduce paper usage and recycle paper waste where possible.

**A2 Use of Resources**

*A2.1 Energy Consumption*

Direct and/or indirect energy consumed for the year ended 30 June 2018 are as follows:

| **Type** | **Total consumption** | **Intensity per employee** |
|---|---|---|
| Gasoline | 9,214 Litre | 307 Litre |
| Electricity purchased | 109,378 Kwh | 3,646 Kwh |

*A2.2 Water Consumption*

The Group operated in a leased office premises of which both of the water supply and discharge are solely controlled the respective building management which considered that provision of water withdrawal and discharge data for individual occupant is not feasible. In addition, no significant water consumed by the Group due to its business nature and accordingly such data is not produced in this report.

*A2.3 & A2.4 Energy and Water Efficiency Initiatives*

To reduce the Group's negative impact on the environment, the Group sets out policy for effective use of resources in order to protect the environment and make its business operations more cost-efficient. The Group has implemented green office practices in order to minimise the use of resources like paper, electricity and water, wherever possible.

The Group's green measures include double-sided printing, the use of energy-saving lightings such as light-emitting diode lightings, and reducing energy consumption by switching off idle lightings, computers and electrical appliances, etc.

In order to reduce consumption of paper, collection boxes have been put in place to collect single-side used papers for reuse as draft papers and other scrap papers for recycling.

To avoid unnecessary water consumption from daily operation, we promote staff behavior by employees to always turn taps off tightly and give priority to effective water-saving products.

*A2.5 Packaging Material*

In view of our business nature, the packaging material used is not significant and therefore disclosure relating to data on these aspects is not made in this report.

**A3 The Environment and Natural Resources**

The Group recognises the responsibility in managing the Group's impact on the environment. For this reason, the Group has adopted series of initiatives as set out above in order to minimise emissions and consumption of energy and resources. The Group closely monitors the utilisation of resources and shall take appropriate actions to seek opportunities for increasing operating efficiency in order to reduce the consumption on non-renewable resources where possible. The Group shall assess the environmental risks of the Group's operations and ensure the Group's compliance with relevant laws and regulations from time to time. During the year ended 30 June 2018, the Group did not recognise any significant impact of its activities on the environment and natural resources.

## B. SOCIAL

### B1 Employment

Employees are the greatest asset of the Group. The Group strives to attract, recruit, retain and train its employees. The Group is in compliance with the relevant labour laws and regulations in Hong Kong.

The Group recognises the importance of maintaining a stable staff force for its continued success. Staff remuneration is determined by reference to personal qualifications, performance, relevant experience, responsibilities and market trends. Our benefits including share options, subsidised medical care, pension funds and sponsorship for external education and training programmes are offered to employees.

The Group respects cultural diversity and is committed to providing a working environment which is free from all forms of discrimination (i.e. age, religion, gender, pregnancy, marital status, disability, family status and race). Therefore, any employee dismissal due to discrimination or unlawful reasons is forbidden in the Group. Besides, opportunities for hiring, training and promotion are equal and open to all qualified candidates or employees and the Group has developed a systematic and objective evaluation mechanism to assess their performance based on qualifications, work experience, skills and abilities.

The Group strives to maintain the work-life balance of its employees by establishing fair and reasonable working hours and leave policy to ensure employees have sufficient time for rest and leisure.

The Group did not note any cases of material non-compliance regarding the Group's labour practices during the year ended 30 June 2018.

### B2 Health and Safety

Although our operation is predominantly office-based, we adhere to Occupational Safety and Health Ordinance (Chapter 509 of the laws of Hong Kong) and other applicable laws and regulations to provide a safe and healthy workplace in order to protect our employees from occupational hazards. The Group is not aware of any material non-compliance with the relevant laws and regulations that have significant impact to the Group in providing a safe working environment and protecting employees from occupational hazards during the year ended 30 June 2018.

As employees are our most important asset and resource, the primary goal is to provide a safe and healthy working environment for the employees under reasonable and practicable conditions. We committed to achieve this goal by implementing the following key measures:

– Providing and maintaining in all workplaces under the Group's control a working environment which is safe and poses no threat to health

– Carry out inspection for any unsafe condition and fix it immediately

– Smoking is prohibited in all enclosed areas within the offices

With the above measures, we have no work-related fatal or work-related injury during the year ended 30 June 2018.

**B3 Development and Training**

The Group strives to improve employee's knowledge and skills for discharging their duties at work and to make them valuable assets to the Group. For this reason, vocational training courses are provided to the employees. The Group also sponsors the employees for external training courses.

**B4 Labour Standards**

*Anti-Child and Forced Labour*

The Group strictly prohibits the use of child and forced labour in the Group's operations or activities. The Group's operations strictly comply with local labour laws and regulations. Forcing labour to work by means of physical punishment, abuse, involuntary servitude, peonage or trafficking is strictly forbidden. Employment of any person who is under the age as set forth by the local labour law is prohibited. The Group formally requires all job applicants to present their identity cards when they attend recruitment interviews.

The Group did not note any cases of material non-compliance with laws and regulations in relation to labour standards during the year ended 30 June 2018.

**B5 Supply Chain Management**

Our suppliers mainly comprise of general office supplies suppliers, for example, water, paper and stationery. We generally select suppliers based on their scale of business and reputation. Our suppliers should comply with all relevant local and national laws and regulations in relation to unethical behaviour, bribery, corruption and other prohibited business practices. When a supplier is found to be inconsistent with our policy or contractual requirements, we will terminate future cooperation until the situation has been improved.

For the year ended 30 June 2018, we do not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environmental protection, human rights and labour practices, nor any of them had any non-compliance incident in respect of human rights issues.

## B6 Product Responsibility

*Services*

The Group strives to provide its customers with high-quality services, treating customers with a sincere and respectful attitude. Professional teams proactively collect and listen to the opinions of tenants and users, responding properly and providing support services. In addition, customer service performance is reviewed periodically to improve service quality.

*Data Privacy*

The Group understands the importance of data privacy. The Group is committed to protecting the privacy of its customers in the collection, processing and use of their personal data. The Group has adopted policies on consumer data protection in compliance with relevant laws and regulations. Training courses on data privacy and protection of data have been conducted. The Group did not note any cases of material non-compliance in relation to data privacy during the year ended 30 June 2018.

## B7 Anti-corruption

We commit to stringent compliance with the Prevention of Bribery Ordinance ("POBO") enforced by the Independent Commission Against Corruption ("ICAC") in order to maintain a fair and just society. As the cornerstone of our corporate culture, we attach great emphasis to maintaining the highest standards of integrity and honesty. We adopt our zero-tolerance policy for misconduct. We have no hesitation to adopt disciplinary actions upon any proven misconduct case. We did not receive any whistleblowing disclosures for the year ended 30 June 2018. There was no significant risks relating to corruption have been identified.

The Group is not aware of any material non-compliance with the relevant laws and regulations that have significant impact on the Group relating to bribery, extortion, fraud and money laundering for the year ended 30 June 2018.

## B8 Community Investment

Being a responsible corporate citizen, we are constantly aware of the community needs and take up our corporate responsibility with best efforts to make contribution to the community by encouraging our employees to contribute their time and efforts in various local community projects in the regions.

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2018.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

## BUSINESS REVIEW

A fair review of the Group's business and the analysis of the Group's performance for the year ended 30 June 2018 as well as prospects of the Group's business are provided in the "Chairman's Statement" of this Annual Report.

**Principal risks and uncertainties**

There are a number of factors affecting the results and business operations of the Group, some of which are inherent in the market and some are due to external environment. Major risks and uncertainties are summarised as follows:

– Business Risk

  The prospects of the Group's property business depend on the performance of the property market in Hong Kong. Any real estate market downturn in Hong Kong may materially and adversely affect the financial position, operations, businesses and prospects of the Group and may lead to fair value loss of the Group's investment properties. The real estate market in Hong Kong is affected by many factors, including but not limited to, changes in Hong Kong's economic, political, social and legal environment and changes in Hong Kong's fiscal and monetary policy, all of which are beyond the control of the Group.

– Market Risk

  The Group's property investment business is operating in a rather competitive environment as rental rate of properties are transparent in property leasing markets in Hong Kong. The transparency of the leasing markets put pressure on the revenue and profitability of the Group's property investment business.

The Group's other financial risks and uncertainties are set out in note 37 to the consolidated financial statements.

**Particulars of important events**

No important events affecting the Group have occurred since the end of the year.

**Financial key performance indicators**

Certain financial key performance indicators which complement and supplement the financial disclosures are set out in the "Chairman's Statement" of this Annual Report.

### Environmental policies performance

The details of social responsibilities and environmental policies are set out in the "Environmental, Social and Governance Report" of this annual report.

### Compliance with the relevant laws and regulations

As far as the Board and management are aware, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the businesses and operations of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

### Relationship with employees and customers

The Group understands the importance of maintaining a good relationship with its employees and customers to meet its immediate, medium and long term business goals. During the year under review, there were no significant dispute between the Group and its employees and customers.

## RESULTS

The results of the Group for the year ended 30 June 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 35.

## SHARE CAPITAL

Details of movements in the Company's issued share capital and share options during the year are set out in note 27 to the financial statements.

## INVESTMENT PROPERTIES

Details of movements during the year are set out in note 15 to the consolidated financial statements.

## PROPERTY AND EQUIPMENT

Details of movements during the year in property and equipment of the Group are set out in note 16 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

The Company's reserve available for distribution to Shareholders as at 30 June 2018 was the retained profits of HK$694,784,000.

## MAJOR SUPPLIERS AND CUSTOMERS

The Group did not have any purchases and suppliers during the year and at the end of the reporting period. During the year, 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.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

**Executive director:**

Oung Shih Hua, James

**Non-executive directors:**

Chan Chi Ho
Yuen Chi Wah

**Independent non-executive directors:**

Au Chik Lam Alexander
Liu Man Kin Dickson
Luo Rongxuan

In accordance with the provisions of the Company's Bye-laws, Messrs. Yuen Chi Wah and Chan Chi Ho retire and, being eligible, offer themselves for re-election.

The term of office for each non-executive director or independent non-executive director, is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, 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:

Long positions in the shares and underlying shares of the Company:

| Name of director | Capacity | Number of ordinary shares held | 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 | 42,897,189 | 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 30 June 2018, 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 in the shares and underlying shares of the Company:

| Name of Shareholder | Capacity | Number of Ordinary Shares held | 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 | – | – | 508,848,531 | 35.43% |
| Cityguard Holdings Limited *(Note b)* | Beneficial owner | 508,848,531 | – | – | 508,848,531 | 35.43% |
| Five Star Investments Limited *(Note c)* | Interest of a controlled corporation | 508,848,531 | – | – | 508,848,531 | 35.43% |
| Gold Seal Holdings Limited *(Note d)* | Beneficial owner | 309,388,211 | – | 228,605,681 | 537,993,892 | 37.46% |
| Next Level Corporate Limited *(Note e)* | Other *(Note e)* | 508,848,531 | – | – | 508,848,531 | 35.43% |
| 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 | – | – | 508,848,531 | 35.43% |
| | Interest of a controlled corporation *(Note d)* | 309,388,211 | – | 228,605,681 | 537,993,892 | 37.46% |
| | | 893,236,742 | 27,172,190 | 243,605,681 | 1,164,014,613 | 81.05% |
| Ms. Hsu Ong Hsiao Ling | Beneficial owner | – | 27,172,190 | – | 27,172,190 | 1.89% |
| | Interest of a controlled corporation *(Note d)* | 309,388,211 | – | 228,605,681 | 537,993,892 | 37.46% |
| | | 309,388,211 | 27,172,190 | 228,605,681 | 565,166,082 | 39.35% |

*Notes:*

(a) Basurto Holdings Limited is held by Mr. Oung Da Ming on trust for the estate of his deceased mother, Ms. Oung Chin Liang Fung (as to 67%) and his sister, Ms. Lilian Oung (as to 33%).

(b) Cityguard Holdings Limited, is a wholly-owned subsidiary of Five Star Investments Limited.

(c) Five Star Investments Limited is directly and individently (through Basurto Holdings Limited) owned as to 67% by the estate of Ms. Oung Chin Liang Fung, grandmother of Dr. Oung Shih Hua, James, and 33% by Ms. Lilian Oung, his aunt. See note (a) above.

(d) Gold Seal Holdings Limited is owned as 33.33% by Mr. Oung Da Ming and 67.67% by his sister, Ms. Hsu Ong Hsiao Ling.

(e) Next Level Corporate Limited is owned as 25% by Mr. Oung Da Ming, 25% by his son, Mr. Oung Shih How, 25% by Dr. Oung Shih Hua, James, and 25% by Anglo Chinese Nominees, Limited which holds its shares in Next Level Corporate Limited as bare trustee for Basurto Holdings Limited. Next Level Corporate Limited is the owner of equity derivatives relating to Ordinary Shares and a chargee of Ordinary Shares.

Other than as disclosed above, as at 30 June 2018, 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.

## SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

### 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. Details of the Share Option Scheme are set out in note 29 to the consolidated financial statements.

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 year are as follows:

| | | Number of Options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantees | Outstanding as at 01.07.2017 | Granted during the period | Adjusted during the period | Cancelled during the period | Lapsed during the period | Exercise during the period | Outstanding as at 30.6.2018 | Exercise price per Share *HK$* | Grant Date | Exercise 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 |

*Note:*

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 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.

## DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Details of the directors' interest in contracts of significance are set out in note 33 to the consolidated financial statements.

Save as disclosed above, there was no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into during the year are set out in note 33 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PERMITTED INDEMNITY PROVISION

The Bye-laws provides that each Director or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors' and officers' liability insurance in respect of relevant legal actions against the Directors.

## EQUITY-LINKED AGREEMENTS

Save for convertible notes and share option scheme of the Company as disclosed in notes 25, 26 and 29 respectively to the consolidated financial statements, no equity-linked agreements were entered into by the Group, or existed during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practice are set out in the "Corporate Governance Report" section to the annual report.

## PURCHASE, SALE AND REDEMPTION OF SHARES

On 19 June 2017, the Group announced to redeem all the preference shares at a price of HK$0.25 per share on 5 July 2017.

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 year ended 30 June 2018.

## USE OF NET PROCEEDS FROM THE OPEN OFFER

Net proceeds from the open offer by way of convertible notes in December 2017 amounted to approximately HK$63.2 million. As at 30 June 2018, a total amount of HK$9.6 million out of net proceeds had been used by the Group according to the allocation set out in the offering circular.

| | Proposed Use of Proceeds | Amount utilised up to 30 June 2018 | Unused proceeds as at 30 June 2018 | Expected timeframe |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | |
| • Purchase of land | 7,800 | – | 7,800 | The negotiation for this takes longer than expected, but expected to be used in the next twelve months |
| • Construction of facilities | 39,000 | – | 39,000 | To be used in two years |
| • Operation costs | 16,400 | 9,589 | 6,811 | To be used in next twelve months |
| Total | 63,200 | 9,589 | 53,611 | |

## AUDIT COMMITTEE

The audit committee comprises one non-executive director and three independent non-executive directors and reports to the board of the directors. The audit committee meets with the Group's senior management regularly to review the effectiveness of the internal control systems and the interim and annual reports of the Company.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the executive directors of the Company on the basis of their merit, qualifications and competence.

The emolument of the directors of the Company is determined by the board of directors of the Company after recommendation from the Remuneration Committee, having regard to the responsibilities of the directors, the Company's operating results, individual performance and comparable market statistics.

Details of directors' emolument during the year are set out in note 12 to the consolidated financial statements.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year ended 30 June 2018 as required under the Listing Rules.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
**Oung Shih Hua, James**
*Chairman*

Hong Kong
27 September 2018

Deloitte. 德勤

**TO THE MEMBERS OF PALADIN LIMITED**
*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Paladin Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 35 to 104, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of investment properties*** | |
| We identified the valuation of investment properties as a key audit matter due to their significance to the consolidated statement of financial position as a whole and the assumptions involved in the determination of fair value of the investment properties.<br><br>As set out in note 15 to the consolidated financial statements, the fair value of investment properties of commercial properties was approximately HK$642,170,000 as at 30 June 2018, with net increase in fair value of HK$62,650,000 recognised in profit or loss during the year ended 30 June 2018.<br><br>The Group's investment properties are stated at fair value based on valuations performed by an independent professional valuer (the "Valuer"). Details of the valuation techniques and key input used in the valuations are disclosed in note 15 to the consolidated financial statements. | Our procedures in relation to the valuation of investment properties included:<br><br>• Obtaining an understanding from management of the Group and the Valuer about the valuation techniques, performance of the property markets, significant assumptions adopted and key inputs used in the valuations;<br><br>• Assessing the accuracy of details of rental information provided by management of the Group to the Valuer based on respective underlying existing lease agreements;<br><br>• Evaluating the competence, capabilities and objectivity of the Valuer; and<br><br>• Assessing the reasonableness of key assumptions used by management of the Group and the Valuer in the valuation based on relevant market information with similar commercial properties. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Kai Hung.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
27 September 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 30 June 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **7,542** | 14,446 |
| Other income | 7 | **5,776** | 4,259 |
| Other gains | 8 | **69,836** | 137,746 |
| Administrative expenses | | **(39,773)** | (54,757) |
| Other operating expenses | | **(18,091)** | – |
| Impairment loss recognised in respect of interest in an associate | 17 | **(7,428)** | – |
| Share of loss of an associate | | **(3,112)** | (1,841) |
| Finance costs | 9 | **(2,728)** | (2,879) |
| Profit before taxation | | **12,022** | 96,974 |
| Taxation | 10 | **–** | (298) |
| Profit for the year | 11 | **12,022** | 96,676 |
| Profit (loss) for the year attribute to | | | |
| Owners of the Company | | **16,284** | 96,899 |
| Non-controlling interests | | **(4,262)** | (223) |
| | | **12,022** | 96,676 |
| **Other comprehensive income** | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **684** | 1,317 |
| Fair value gain on an available-for-sale investment | | **976** | 556 |
| Other comprehensive income for the year | | **1,660** | 1,873 |
| Total comprehensive income for the year | | **13,682** | 98,549 |
| Total comprehensive income (expense) attribute to | | | |
| Owners of the Company | | **17,610** | 98,317 |
| Non-controlling interests | | **(3,928)** | 232 |
| | | **13,682** | 98,549 |
| EARNINGS PER SHARE | 14 | | |
| Basic | | **1.17 HK cents** | 7.28 HK cents |
| Diluted | | **0.59 HK cents** | 6.81 HK cents |

# Consolidated Statement of Financial Position

*At 30 June 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 15 | **642,170** | 579,520 |
| Property and equipment | 16 | **210,186** | 211,476 |
| Interest in an associate | 17 | **2,799** | 13,759 |
| Available-for-sale investment | | **13,592** | 12,616 |
| Deposits placed for life insurance policies | 18 | **36,258** | 35,034 |
| Deposits paid | 19 | **–** | 3,199 |
| | | **905,005** | 855,604 |
| Current assets | | | |
| Other receivables, deposits and prepayments | | **7,365** | 6,229 |
| Bank balances and cash | 20 | **332,127** | 354,653 |
| | | **339,492** | 360,882 |
| Current liabilities | | | |
| Other payables and accrued charges | 21 | **12,497** | 13,108 |
| Amounts due to related parties | 22 | **24,388** | 64,822 |
| Tax payable | | **298** | 298 |
| Bank overdrafts | | **–** | 575 |
| Secured bank borrowings | 23 | **105,779** | 107,639 |
| Convertible notes | 25 | **41,359** | – |
| Convertible redeemable preference shares | 26 | **–** | 6,446 |
| | | **184,321** | 192,888 |
| Net current assets | | **155,171** | 167,994 |
| Total assets less current liabilities | | **1,060,176** | 1,023,598 |

# Consolidated Statement of Financial Position (Cont'd)

*At 30 June 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Non-current liability | | | |
| Other borrowing | 24 | **3,340** | – |
| Net assets | | **1,056,836** | 1,023,598 |
| Capital and reserves | | | |
| Share capital | 27 | **14,361** | 13,428 |
| Reserves | | **1,045,810** | 1,009,750 |
| Equity attributable to owners of the Company | | **1,060,171** | 1,023,178 |
| Non-controlling interests | | **(3,335)** | 420 |
| Total equity | | **1,056,836** | 1,023,598 |

The consolidated financial statements on pages 35 to 104 were approved and authorised for issue by the Board of Directors on 27 September 2018 and are signed on its behalf by:

**Oung Shih Hua, James**
*CHAIRMAN*

**Yuen Chi Wah**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

*For the year ended 30 June 2018*

| | Attributable to owners of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Capital reserve *HK$'000* *(note a)* | Treasury shares reserve *HK$'000* *(note b)* | Other reserve *HK$'000* *(note c)* | Translation reserve *HK$'000* | Investment revaluation reserve *HK$'000* | Convertible notes reserve *HK$'000* | Share option reserve *HK$'000* *(Note 26)* | Accumulated profits *HK$'000* | Sub-total *HK$'000* | Non-controlling interests *HK$'000* | Total *HK$'000* |
| At 1 July 2016 | 13,275 | 166,403 | 6,190 | (5,255) | 21,766 | (1,203) | 4,560 | 13,930 | 25,476 | 651,960 | 897,102 | – | 897,102 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | 96,899 | 96,899 | (223) | 96,676 |
| Other comprehensive income for the year | – | – | – | – | – | 862 | 556 | – | – | – | 1,418 | 455 | 1,873 |
| Total comprehensive income for the year | – | – | – | – | – | 862 | 556 | – | – | 96,899 | 98,317 | 232 | 98,549 |
| Issue of shares on conversion of convertible redeemable preference shares | 347 | 10,244 | (3,116) | – | – | – | – | – | – | – | 7,475 | – | 7,475 |
| Recognition of equity-settled share-based payment transaction *(Note 29)* | – | – | – | – | – | – | – | – | 21,206 | – | 21,206 | – | 21,206 |
| Shares repurchased *(Note 27)* | – | – | – | (917) | – | – | – | – | – | – | (917) | – | (917) |
| Shares cancelled *(Note 27)* | (194) | (5,630) | – | 5,824 | – | – | – | – | – | – | – | – | – |
| Transaction costs attributable to shares repurchase | – | (32) | – | 27 | – | – | – | – | – | – | (5) | – | (5) |
| Lapsed of conversion rights | – | – | (3,074) | – | – | – | – | – | – | 3,074 | – | – | – |
| Capital contribution from non-controlling interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 188 | 188 |
| At 30 June 2017 | 13,428 | 170,985 | – | (321) | 21,766 | (341) | 5,116 | 13,930 | 46,682 | 751,933 | 1,023,178 | 420 | 1,023,598 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | – | 16,284 | 16,284 | (4,262) | 12,022 |
| Other comprehensive income for the year | – | – | – | – | – | 350 | 976 | – | – | – | 1,326 | 334 | 1,660 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 350 | 976 | – | – | 16,284 | 17,610 | (3,928) | 13,682 |
| Issue of shares on conversion of 2014 Convertible Notes *(Note 25b)* | 168 | 4,040 | – | – | – | – | – | (4,208) | – | – | – | – | – |
| Issue of shares on conversion of 2017 Convertible Notes *(Note 25a)* | – | 7 | – | – | – | – | – | – | – | – | 7 | – | 7 |
| Shares cancelled *(Note 27)* | (10) | (311) | – | 321 | – | – | – | – | – | – | – | – | – |
| Issue of shares on open offer of convertible note with share alternative *(Note 25a)* | 775 | 18,601 | – | – | – | – | – | – | – | – | 19,376 | – | 19,376 |
| Capital contribution from non-controlling interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 173 | 173 |
| At 30 June 2018 | 14,361 | 193,322 | – | – | 21,766 | 9 | 6,092 | 9,722 | 46,682 | 768,217 | 1,060,171 | (3,335) | 1,056,836 |

*Notes:*

(a) The capital reserve represents the equity component of convertible redeemable preference shares with details set out in Note 26.

(b) The treasury share reserve represents the share repurchased but not yet cancelled during the years ended 30 June 2018 and 2017.

(c) The other reserve represents deemed contribution arising from relieve of paying cumulative preference dividends upon the alteration of the terms of the convertible redeemable preference shares during the year ended 30 June 2008.

# Consolidated Statement of Cash Flows

*For the year ended 30 June 2018*

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| OPERATING ACTIVITIES | | |
| Profit before taxation | **12,022** | 96,974 |
| Adjustments for: | | |
| Depreciation of property and equipment | **6,049** | 2,077 |
| Gain on disposal of property and equipment | **–** | (145) |
| Gain on fair value change on investment properties | **(62,650)** | (135,470) |
| Interest expenses | **2,728** | 2,879 |
| Interest income | **(4,732)** | (3,788) |
| Premium charged on life insurance policies | **4,040** | 3,477 |
| Reversal of provision for litigations | **–** | (2,131) |
| Share-based payment expenses | **–** | 21,206 |
| Share of loss of an associate | **3,112** | 1,841 |
| Direct attributable costs in relation to open offer of convertible notes with share alternative | **1,623** | – |
| Fair value change of convertible notes | **(7,186)** | – |
| Impairment loss on interest in an associate | **7,428** | – |
| Operating cash flows before movements in working capital | **(37,566)** | (13,080) |
| (Increase) decrease in other receivables, deposits and prepayments | **(1,714)** | 3,485 |
| Decrease in other payables and accrued charges | **(806)** | (1,699) |
| NET CASH USED IN OPERATING ACTIVITIES | **(40,086)** | (11,294) |
| INVESTING ACTIVITIES | | |
| Bank interest received | **46** | 51 |
| Purchase of property and equipment | **(1,570)** | (3,604) |
| Proceeds from disposal of property and equipment | **–** | 145 |
| Deposits paid for acquisition of property and equipment | **–** | (3,199) |
| Placement of deposit for a life insurance policy | **–** | (16,945) |
| Capital contribution in an associate | **–** | (15,600) |
| NET CASH USED IN INVESTING ACTIVITIES | **(1,524)** | (39,152) |

# Consolidated Statement of Cash Flows (Cont'd)

*For the year ended 30 June 2018*

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| FINANCING ACTIVITIES | | |
| Bank borrowings raised | **–** | 12,691 |
| Repayment to related parties | **(40,434)** | (29,650) |
| Redemption of convertible redeemable preference shares | **(6,446)** | (2,731) |
| Repayment of bank borrowings | **(1,860)** | (2,355) |
| Interest paid | **(2,533)** | (2,224) |
| Payment on repurchase of shares | **–** | (917) |
| Transaction costs attributable to repurchase of shares | **–** | (5) |
| Capital contribution from non-controlling interest in subsidiaries | **173** | 188 |
| Cash received from the open offer of convertible notes with share alternative | **48,552** | – |
| Cash received from the open offer of ordinary shares | **19,376** | – |
| Direct attributable costs in relation to open offer of convertible notes with share alternative | **(1,623)** | – |
| Other borrowing raised | **3,340** | – |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **18,545** | (25,003) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | **(23,065)** | (75,449) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **354,078** | 428,195 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **1,114** | 1,332 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | **332,127** | 354,078 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | **332,127** | 354,653 |
| Bank overdrafts | **–** | (575) |
| | **332,127** | 354,078 |

## 1. GENERAL

Paladin Limited ("the Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate holding company, ultimate holding company and ultimate controlling party is Basurto Holdings Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$" or "HKD") which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40 to the consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA") for the first time in the current year:

| | |
|---|---|
| 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 |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current year and prior period and/or on the disclosures set out in these consolidated financial statements.

**Amendments to HKAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**New and revised HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[2] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new HKFRSs mentioned below, directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the Group's consolidated financial statements in the foreseeable future.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**HKFRS 9 Financial Instruments**

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss; and

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**HKFRS 9 Financial Instruments** (Cont'd)

*Classification and measurement*

Based on the Group's financial instruments and risk management policies as at 30 June 2018, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

- Unlisted debt securities classified as available-for-sale investment carried at fair value: these securities will be measured at FVTPL under HKFRS 9. Upon initial application of HKFRS 9, investments revaluation reserves of HK$6,092,000 related to the available-for-sale investment will be transferred to the opening accumulated profits at 1 January 2018.

- Deposits placed for life insurance policies as loan receivables carried at amortised cost as disclosed in note 18: these securities will be measured at FVTPL under HKFRS 9 as these investments cannot meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. The Group will measure such asset at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. The directors of the Company estimated that the fair value of deposits placed for life insurance policies upon initial application of HKFRS 9 approximates the amount as measured at amortised cost.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

*Impairment*

In general, directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the management, if the expected credit loss model were to be applied by the Group, there will be no significant change to the accumulated amount of impairment loss to be recognised by the Group as at 1 July 2018 as compared to the accumulated amount recognised under HKAS 39.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

**HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2018, the Group has non-cancellable operating lease commitments of HK$9,758,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$516,000 and refundable rental deposits received of HK$2,943,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairments of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The principal accounting policies are set out below.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Interest in an associate**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

**Interest in an associate** (Cont'd)

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for rental income rendered in the normal course of business.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**Leasehold land and building**

When the Group makes payments for a property, interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under a finance lease.

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

**Property and equipment**

Property and equipment including leasehold land and building held for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

**Impairment on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash–generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

**Impairment on tangible assets** (Cont'd)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are expensed in profit or loss in the period which they are incurred.

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

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

**Taxation** (Cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax is recognised in profit or loss.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an assets.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

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

**Share-based payment arrangements**

*Equity-settled share-based payment transactions*

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profit.

**Retirement benefit costs**

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

**Financial instruments** (Cont'd)

*Financial assets*

The Group's financial assets are classified into two categories including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, deposits placed for life insurance policies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the AFS financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

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

**Financial instruments** (Cont'd)

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

**Financial instruments** (Cont'd)

*Impairment of financial assets* (Cont'd)

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

*Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including other payables, other borrowing, amounts due to related parties, bank overdrafts, secured bank borrowings and convertible redeemable preference shares) are subsequently measured at amortised cost, using the effective interest method.

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

**Financial instruments** (Cont'd)

*Financial liabilities and equity instruments* (Cont'd)

Convertible notes

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

(a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;

(b) the issuing group entity can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuing group entity; or

(c) the instrument has all the features and meets the conditions in paragraphs 16A and 16B of HKAS 32 "Financial Instruments: Presentation".

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

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

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

For financial instrument contains both the debt component and derivative components, they are designated at FVTPL as a whole. In subsequent periods, both of them are measured at fair value and the corresponding effect of exchange difference has been recognised with changes in fair value to profit or loss. Transaction costs relating to the issuance of the convertible notes are charged to profit or loss immediately.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item.

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

**Financial instruments** (Cont'd)

*Financial liabilities and equity instruments* (Cont'd)

Convertible redeemable preference shares

Convertible redeemable preference shares are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt without the conversion feature. The difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the liability component of the convertible redeemable preference shares into equity of the Company, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible redeemable preference shares is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the conversion option is exercised (in which case the balance stated in capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the accumulated profit. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible redeemable preference shares are allocated to the liability and equity components in proportion to the allocation of the proceeds. Issue costs relating to the equity component are charged directly to equity. Issue costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible redeemable preference shares using the effective interest method.

*Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognise financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

**Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

*Fair value measurements and valuation processes*

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset, the directors of the Company use market-observable data to the extent it is available. Where market-observable data are not available, the Group engage third party qualified valuers to perform the valuation.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties. Details are disclosed in Note 15.

*Legal claims*

The Group is involved in legal proceeding as disclosed in note 30. Management has evaluated and assessed the claims made against the Group based on legal advice received and information presently available. Actual result of the legal proceeding and the amount of claims may differ from estimates, resulting in a decrease or increase in loss for compensation for litigations. Details of the provision for litigations are disclosed in note 30.

## 5. REVENUE

Revenue represents the aggregate of the amounts received and receivable for rental income from investment properties. An analysis of the Group's revenue is as follows:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Rental income from investment properties | **7,542** | 14,446 |

## 6. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, being the Group's chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

During the year ended 30 June 2018, CODM identified research and development as the Group's new operating and reportable segment.

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

- Property investment: rental income from leasing out the properties.

- Research and development: conducting research and development, software and hardware design for the manufacture and sales of a range of high technology products such as portable x-ray systems, advanced algorithm and software solutions, image sensors etc.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by operating and reportable segments:

**Year ended 30 June 2018**

| | **Property investment** *HK$'000* | **Research and development** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| Revenue | **7,542** | **–** | **7,542** |
| Segment results | **58,615** | **(23,158)** | **35,457** |
| Unallocated expenses | | | **(31,376)** |
| Unallocated income | | | **7,941** |
| Profit before taxation | | | **12,022** |

## 6. SEGMENT INFORMATION (Cont'd)

**Segment revenue and results** (Cont'd)

Year ended 30 June 2017 (restated)

| | Property investment *HK$'000* | Research and development *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Revenue | 14,446 | – | 14,446 |
| Segment results | 130,515 | – | 130,515 |
| Unallocated expenses | | | (37,186) |
| Unallocated income | | | 3,645 |
| Profit before taxation | | | 96,974 |

Segment revenue reported above represents revenue generated from external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before taxation incurred by each segment without the allocation of certain other income, gain on fair value change of convertible notes, interest on convertible redeemable preference share, impairment loss recognised in respect of interest in an associate, share of loss of an associate and unallocated corporate expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**Information about major customers**

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

| | **2018** ***HK$'000*** | 2017 *HK$'000* |
|---|---|---|
| Customer A[2] | **Not applicable**[1] | 14,446 |
| Customer B[2] | **6,832** | – |

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group

[2] Revenue from property investment segment.

No geographic information is shown as the revenue, non-current assets (other than interest in an associate) and profit from operations of the Group are primarily derived from its activities in Hong Kong.

## 7. OTHER INCOME

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income from deposits placed for life insurance policies | **4,686** | 3,737 |
| Government grants received *(Note)* | **866** | – |
| Bank interest income | **46** | 51 |
| Consultancy fee income | **–** | 426 |
| Others | **178** | 45 |
| | **5,776** | 4,259 |

*Note:* The government grants represented immediate financial support granted by the local government to one of the subsidiaries operated in Finland. There were no specific conditions attached to the grants and the amounts were recognised in profit or loss when the grants were received.

## 8. OTHER GAINS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Gain on fair value change of investment properties *(note 15)* | **62,650** | 135,470 |
| Gain on fair value change of convertible notes *(note 25)* | **7,186** | – |
| Reversal of provision for litigations | **–** | 2,131 |
| Gain on disposal of property and equipment | **–** | 145 |
| | **69,836** | 137,746 |

## 9. FINANCE COSTS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on bank borrowings | **2,653** | 2,167 |
| Interest on bank overdrafts | **33** | 57 |
| Interest on other borrowing | **42** | – |
| Interest on convertible redeemable preference shares *(note 26)* | **–** | 655 |
| | **2,728** | 2,879 |

## 10. TAXATION

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Underprovision in prior years | **–** | 298 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No current year tax provision has been provided as the Group had no assessable profit for both years.

Taxation for the year can be reconciled to profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **12,022** | 96,974 |
| Tax charge at Hong Kong Profits Tax rate of 16.5% (2017: 16.5%) | **1,984** | 16,001 |
| Tax effect of income not taxable for tax purpose | **(12,307)** | (22,876) |
| Tax effect of expenses not deductible for tax purpose | **6,980** | 7,052 |
| Tax effect of tax losses not recognised | **4,297** | 366 |
| Underprovision in respect of prior years | **–** | 298 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(311)** | 147 |
| Others | **(643)** | (690) |
| Taxation for the year | **–** | 298 |

## 11. PROFIT FOR THE YEAR

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| Directors' remunerations *(note 12)* | **4,771** | 11,642 |
| Other staff costs | **11,815** | 3,295 |
| Other staff's retirement benefit scheme contributions | **813** | 99 |
| Other staff's share-based payment | **–** | 14,189 |
| Total staff costs | **17,399** | 29,225 |
| Auditor's remuneration | **817** | 817 |
| Research and development expenses (including staff costs of approximately HK$7,382,000 (2017: Nil)) | **18,091** | – |
| Depreciation of property and equipment | **6,049** | 2,077 |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

### (a) Directors' emoluments

The emoluments paid or payable to each of the seven (2017: seven) directors of the Company were as follows:

**2018**

| | Executive director | Non-executive directors | | Independent non-executive directors | | | | |
|---|---|---|---|---|---|---|---|---|
| | Oung Shih Hua, James# *HK$'000* | Chan Chi Ho *HK$'000* | Yuen Chi Wah *HK$'000* | Liu Man Kin Dickson *HK$'000* | Huang Weizong Martin *HK$'000* | Au Chik Lam Alexander *HK$'000* | Luo Rong Xuan *HK$'000* | Total *HK$'000* |
| Fees | **1,348** | **260** | **131** | **240** | **–** | **240** | **120** | **2,339** |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | **1,872** | **–** | **512** | **–** | **–** | **–** | **–** | **2,384** |
| Retirement benefit scheme contributions | **18** | **12** | **18** | **–** | **–** | **–** | **–** | **48** |
| | **3,238** | **272** | **661** | **240** | **–** | **240** | **120** | **4,771** |

2017

| | Executive director | Non-executive directors | | Independent non-executive directors | | | | |
|---|---|---|---|---|---|---|---|---|
| | Oung Shih Hua, James# *HK$'000* | Chan Chi Ho *HK$'000* | Yuen Chi Wah *HK$'000* | Liu Man Kin Dickson *HK$'000* | Huang Weizong Martin *HK$'000* | Au Chik Lam Alexander *HK$'000* | Luo Rong Xuan *HK$'000* *(note a)* | Total *HK$'000* |
| Fees | 1,300 | 260 | 130 | 240 | – | 240 | 40 | 2,210 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 1,872 | – | 494 | – | – | – | – | 2,366 |
| Share-based payment | 2,339 | 2,339 | 2,339 | – | – | – | – | 7,017 |
| Retirement benefit scheme contributions | 18 | 13 | 18 | – | – | – | – | 49 |
| | 5,529 | 2,612 | 2,981 | 240 | – | 240 | 40 | 11,642 |

*Notes:*

(a) The director has been appointed during the year ended 30 June 2017.

# Oung Shih Hua, James, is also the Chief Executive of the Company.

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (Cont'd)

### (a) Directors' emoluments (Cont'd)

The executive directors' emoluments disclosed above include their services in connection with the management of the affairs of the Company and the Group. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the years. During the year ended 30 June 2017, certain directors were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 29 to the consolidated financial statements.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

In addition to above, the Group provided its property as accommodation to Mr. Oung Shih Hua, James at rent-free from 23 February 2017 to 30 June 2018. The estimated money value of the benefit in kind is approximately HK$1,238,000 (2017: HK$480,000).

### (b) Employees' emoluments

During the year, the five highest paid individuals of the Group included two (2017: three) directors, details of whose emoluments are set out in (a) above. The emoluments of the remaining three (2017: two) individuals are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **3,611** | 304 |
| Equity-settled share option expense | **–** | 4,054 |
| Retirement benefit scheme contributions | **149** | 14 |
| | **3,760** | 4,372 |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION (Cont'd)

**(b) Employees' emoluments** (Cont'd)

The emoluments of these employees fall within the following bands:

| | Number of employees | |
|---|---|---|
| | **2018** | 2017 |
| Nil to HK$1,000,000 | **1** | – |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$2,000,001 to HK$2,500,000 | **1** | 2 |
| | **3** | 2 |

During both years, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss in office. In addition, during the year ended 30 June 2017, certain highest paid individuals were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 29 to the consolidated financial statements.

In addition to above, the Group provided its property as accommodation to one of the five highest paid individuals of the Group at rent-free from 23 February 2017 to 30 June 2018. The estimated money value of the benefit in kind is approximately HK$1,348,000 (2017: HK$480,000).

## 13. DIVIDENDS

No dividend was paid or proposed by the Group during the year ended 30 June 2018 (2017: nil), nor has any dividend been proposed since the end of the reporting period.

## 14. 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:

| | For the year ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share | **16,284** | 96,899 |
| Effect of dilutive potential shares: | | |
| Interest on convertible redeemable preference shares | **–** | 655 |
| Gain on fair value change of convertible notes | **(7,186)** | – |
| Earnings for the purposes of diluted earnings per share | **9,098** | 97,554 |

| | **2018** | 2017 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **1,393,525,262** | 1,330,495,814 |
| Effect of dilutive potential shares: | | |
| Convertible redeemable preference shares | **–** | 34,608,440 |
| Convertible notes | **160,057,687** | 66,854,209 |
| Weighted average number of shares for the purpose of diluted earnings per share | **1,553,582,949** | 1,431,958,463 |

For the year ended 30 June 2018, 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.

## 15. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **FAIR VALUE** | |
| At 1 July 2016 | 649,050 |
| Net increase in fair value recognised in profit or loss *(note 8)* | 135,470 |
| Transferred to property, plant and equipment *(note 16)* | (205,000) |
| At 30 June 2017 | 579,520 |
| Net increase in fair value recognised in profit or loss *(note 8)* | 62,650 |
| At 30 June 2018 | 642,170 |

During the year ended 30 June 2017, the directors of the Company determined that the two residential properties located at No.53 Conduit Road were occupied for the use of employee's and directors' quarters and, as a result of the change in use of these properties, the two residential properties were transferred to property, plant and equipment on 23 February 2017 at an aggregate fair value of HK$205,000,000 (see note 16). As of 30 June 2017 and 2018, investment properties of the Group comprised of two commercial properties located at No.151 Gloucester Road, which were held by the Group for long-term capital appreciation. The two commercial properties were classified as investment properties and measured using the fair value model.

## 15. INVESTMENT PROPERTIES (Cont'd)

The fair values of investment properties at the end of the reporting period have been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent qualified professional valuer (the "Valuer") which is not connected to the Group. The Valuer 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 values of these investment properties were 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.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and key 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<br>*HK$'000* | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Sensitivity/relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Tenant occupied office premises/car parks located in Hong Kong | 319,100 (2017: 291,800) | Level 3 | Income method – Term and Reversion approach with key inputs of vacant possession value | Vacant possession value mainly taking into account of floor level, between the comparables, which ranged from HK$26,219 to HK$26,885 (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 | 323,070 (2017: 287,720) | 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 comparables, which ranged from HK$26,219 to HK$26,885 (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. |

There were no transfers into or out of Level 3 during the year.

## 16. PROPERTY AND EQUIPMENT

| | Leasehold land and building HK$'000 | Leasehold improvements HK$'000 | Office equipment, furniture and fixtures HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 July 2016 | – | – | 9,133 | 9,133 |
| Additions | – | 7,686 | 833 | 8,519 |
| Transferred from investment properties *(note 15)* | 205,000 | – | – | 205,000 |
| Disposals | – | – | (513) | (513) |
| Exchange realignment | – | – | 48 | 48 |
| At 30 June 2017 | 205,000 | 7,686 | 9,501 | 222,187 |
| Additions | – | 4,172 | 597 | 4,769 |
| Disposals | – | – | (732) | (732) |
| Exchange realignment | – | – | (26) | (26) |
| At 30 June 2018 | 205,000 | 11,858 | 9,340 | 226,198 |
| DEPRECIATION | | | | |
| At 1 July 2016 | – | – | 9,099 | 9,099 |
| Provided for the year | 1,424 | 523 | 130 | 2,077 |
| Eliminated on disposals | – | – | (513) | (513) |
| Exchange realignment | – | – | 48 | 48 |
| At 30 June 2017 | 1,424 | 523 | 8,764 | 10,711 |
| Provided for the year | 4,270 | 1,606 | 173 | 6,049 |
| Eliminated on disposals | – | – | (732) | (732) |
| Exchange realignment | – | – | (16) | (16) |
| At 30 June 2018 | 5,694 | 2,129 | 8,189 | 16,012 |
| CARRYING VALUES | | | | |
| At 30 June 2018 | 199,306 | 9,729 | 1,151 | 210,186 |
| At 30 June 2017 | 203,576 | 7,163 | 737 | 211,476 |

## 16. PROPERTY AND EQUIPMENT (Cont'd)

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and building | Over the period of the lease |
| Leasehold improvements | 15% |
| Office equipment, furniture and fixtures | 15 – 25% |

At the end of the reporting period, the Group has pledged leasehold land and building with a carrying value of approximately HK$199,306,000 (2017: HK$203,576,000) to secure general banking facilities granted to the Group.

## 17. INTEREST IN AN ASSOCIATE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cost of unlisted investments in an associate | **15,600** | 15,600 |
| Share of post-acquisition losses and other comprehensive expenses of the associate | **(5,373)** | (1,841) |
| Accumulated impairment loss recognised | **(7,428)** | – |
| | **2,799** | 13,759 |

During the year ended 30 June 2017, the Group made a capital injection to Imagica Technology Incorporation ("Imagica") of US$2,000,000 (equivalent to HK$15,600,000) of which the Group holds 49% equity interest.

Particulars of the associate of the Group at the end of the reporting period 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 |
|---|---|---|---|---|---|---|---|
| | | | **2018** | 2017 | **2018** | 2017 | |
| Imagica Technology Incorporation | Canada | Canada | **49%** | 49% | **49%** | 49% | Research and development |

## 17. INTEREST IN AN ASSOCIATE (Cont'd)

The summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's management accounts prepared in accordance with HKFRSs. The associate is accounted for using the equity method in the consolidated financial statements.

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **5,753** | 13,073 |
| Non-current assets | **219** | 16 |
| Current liabilities | **(260)** | (168) |
| Revenue | **–** | – |
| Loss for the year | **(6,351)** | (3,758) |
| Other comprehensive expense for the year | **(858)** | – |
| Total comprehensive expense for the year | **(7,209)** | (3,758) |

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Net assets of Imagica | **5,712** | 12,921 |
| Proportion of the Group's ownership interest in Imagica | **49%** | 49% |
| Carrying amount of the Group's interest in Imagica | **2,799** | 6,331 |
| Goodwill | **7,428** | 7,428 |
| Accumulated impairment loss recognised | **(7,428)** | – |
| Carrying amount of the Group's interest in Imagica | **2,799** | 13,759 |

During the year ended 30 June 2018, due to unsatisfactory result of the financial performance and uncertain future return of Imagica, the Directors conducted a review on the recoverable amounts of the investment in an associate. The recoverable amounts of the investment in an associate as at 30 June 2018 have been determined based on the Group's share of the present value of the estimated future cash flows expected to be generated by the associate. During the year ended 30 June 2018, an impairment loss of HK$7,428,000 (2017: Nil) has been recognised in the profit or loss.

## 18. 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 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 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"), 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.

At the end of the reporting period, the carrying amount of deposit placed for a life insurance policy which has been pledged as security for the bank borrowing, is approximately HK$17,670,000 (2017: HK$17,226,000).

## 19. DEPOSITS PAID

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposits paid for leasehold improvements | **–** | 3,199 |

## 20. BANK BALANCES AND CASH

The amounts comprised cash held by the Group and short-term bank deposits with an original maturity of three months or less, at prevailing market interest rates ranging from 0.01% to 1.2% (2017: 0.01% to 0.02%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the group entities to which it relates:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| United States Dollar ("USD") | **77,204** | 123,898 |
| European Dollar ("EUR") | **44,298** | 35,142 |
| Taiwan Dollar ("TWD") | **5,420** | 6,815 |
| Renminbi ("RMB") | **10,025** | – |
| Japanese Yen ("JPY") | **5,632** | – |

## 21. OTHER PAYABLES AND ACCRUED CHARGES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accruals | **6,932** | 4,394 |
| Rental deposits received | **2,943** | 3,480 |
| Other payables | **2,622** | 5,234 |
| | **12,497** | 13,108 |

## 22. AMOUNTS DUE TO RELATED PARTIES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due to related parties | | |
| – Gold Seal Holdings Limited *(Note)* | **6,111** | 9,071 |
| – Cityguard Holdings Limited *(Note)* | **18,277** | 55,751 |
| | **24,388** | 64,822 |

*Note:* These companies are immediate shareholders of the Company.

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

## 23. SECURED BANK BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Secured: | | |
| Mortgage loans | **93,088** | 94,948 |
| Revolving loan | **12,691** | 12,691 |
| | **105,779** | 107,639 |
| Carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable: | | |
| Within one year | **15,003** | 15,061 |
| Within a period of more than one year but not exceeding two years | **1,978** | 2,423 |
| Within a period of more than two years but not exceeding five years | **6,429** | 7,595 |
| More than five years | **82,369** | 82,560 |
| | **105,779** | 107,639 |

At 30 June 2018, the secured bank borrowings comprised:

(i) a revolving loan with an outstanding amount of approximately HK$12,691,000 (2017: HK$12,691,000) that carries interest at the rate of 1.35% (2017: 1.35%) per annum over Hong Kong Interbank Offer Rate ("HIBOR"); and

(ii) mortgage loans with an outstanding amount of approximately HK$93,088,000 (2017: HK$94,948,000) that shall be repayable by remaining 335 (2017: 347) monthly instalments and carries interest at a rate of 1.75% (2017:1.75%) per annum over HIBOR.

The effective interest rates of the Group's bank borrowings was 2.49% (2017: 1.89%) per annum.

All bank borrowings are secured by the Group's assets. The details of pledged assets are disclosed in note 31.

## 24. OTHER BORROWING

The amount is unsecured with an outstanding amount of approximately HK$3,340,000 (2017: Nil) that shall be repayable by instalments from 2022 to 2024 and carries interest at a rate of 1% per annum set by the Finland Finance Ministry.

## 25. 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 and 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 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.

*(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.

## 25. CONVERTIBLE NOTES (Cont'd)

### a. 2017 Convertible Notes (Cont'd)

*(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.

*(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 2017 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 2017 Convertible Notes on the redemption date specified therein.

*(v) Automatic conversion on maturity*

On the maturity date, all the outstanding 2017 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 2017 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 2017 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 2017 Convertible Notes then outstanding and (ii) HK$0.25.

## 25. CONVERTIBLE NOTES (Cont'd)

### a. 2017 Convertible Notes (Cont'd)

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 in 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 entire 2017 Convertible Notes as FVTPL 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.

The fair values of the 2017 Convertible Notes were determined by the management, 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 issued date on 20 December 2017** | **As at 30 June 2018** |
|---|---|---|
| Share price (per share) | HK$0.245 | HK$0.241 |
| No. of shares convertible | 194,208,539 | 194,178,331 |

Change in fair value of HK$7,186,000 was credited to "other gains" in profit or loss during year ended 30 June 2018.

During the year ended 30 June 2018, a total of 30,208 2017 Convertible Notes with an amount of HK$7,552 have converted to 30,208 ordinary shares.

As at 30 June 2018, the outstanding number of 2017 Convertible Notes is 194,178,331.

### 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 ("2014 Convertible Notes"). 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 were issued in the open offer.

## 25. CONVERTIBLE NOTES (Cont'd)

### b. 2014 Convertible Notes (Cont'd)

Details of major terms and conditions of the convertible notes are set out in the announcement in respect of the open offer of convertible notes with an ordinary share alternative dated 28 October 2014.

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.

During the year ended 30 June 2018, a total amount of 16,834,200 2014 Convertible Notes with an amount of approximately HK$4,208,000 (2017: HK$2) have been converted to 16,834,200 (2017: 5) ordinary shares.

As at 30 June 2018, the outstanding number of 2014 Convertible Notes is 52,104,172 (2017: 66,854,206).

## 26. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

| | **Number of preference shares** | **Amount of par value** *HK$'000* |
|---|---|---|
| Authorised: | | |
| At 1 July 2016, 30 June 2017 and 30 June 2018 | 1,270,000,000 | 12,700 |
| Issued and fully paid: | | |
| At 1 July 2016 | 70,003,529 | 700 |
| Conversion into ordinary shares | (33,294,391) | (333) |
| Redemption of convertible redeemable preference share | (10,926,320) | (109) |
| At 30 June 2017 | 25,782,818 | 258 |
| Redemption of convertible redeemable preference share | (25,782,818) | (258) |
| At 30 June 2018 | – | – |

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

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.

Movement of the convertible redeemable preference shares are as follows:

| | **Liability component** *HK$'000* | **Equity component** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| 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 year | 655 | – | 655 |
| Lapsed of conversion rights | – | (3,074) | (3,074) |
| Redemption of convertible redeemable preference shares | (2,731) | – | (2,731) |
| At 30 June 2017 | 6,446 | – | 6,446 |
| Redemption of convertible redeemable preference shares | (6,446) | – | (6,446) |
| At 30 June 2018 | – | – | – |

*Note:* As announced by the Company on 3 July 2007, the alteration of the terms of the existing convertible redeemable preference shares had been duly approved by the holders of convertible redeemable preference shares at the special general meeting held on 3 July 2007.

The principal terms of the convertible redeemable preference shares are set out in circulars in respect of the open offer of convertible redeemable preference shares dated on 24 August 2006 and 13 September 2007.

## 27. SHARE CAPITAL

| | Nominal value per share *HK$* | Numbers of shares | Amount *HK$'000* |
|---|---|---|---|
| Authorised: | | | |
| At 1 July 2016, 30 June 2017 and 30 June 2018 | 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 *(note 26)* | | 34,681,649 | 347 |
| Issue of shares on conversion of convertible notes *(note 25b)* | | 5 | – |
| Shares repurchased and cancelled *(note a)* | | (1,990,000) | (20) |
| Cancellation of shares repurchased in prior period *(note b)* | | (17,425,000) | (174) |
| At 30 June 2017 | 0.01 | 1,342,801,673 | 13,428 |
| Issue of shares on open offer of 2017 Convertible Notes with share alternative *(note 25a)* | | 77,505,635 | 775 |
| Issue of shares on conversion of convertible notes *(note 25)* | | 16,864,408 | 168 |
| Cancellation of shares repurchased in prior period *(note b)* | | (1,065,000) | (10) |
| At 30 June 2018 | 0.01 | 1,436,106,716 | 14,361 |

*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 cancelled 1,065,000 (2017: 17,425,000) shares on the Stock Exchange in July 2017 (2017: May 2017) at HK$0.3 (2017: HK$0.3) each for an aggregated consideration paid of approximately HK$321,000 (2017: HK$5,228,000).

All shares issued during both years rank pari passu in all respects with other shares in issue.

## 28. DEFERRED TAXATION

At 30 June 2018, the Group has unused tax losses of approximately HK$80,064,000 (2017: HK$54,022,000) available for offset against future profits. No deferred tax asset has been recognised in respect of all the unused tax losses due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely.

## 29. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a resolution passed in the Company's general meeting on 20 November 2015, the Company approved and adopted a share option scheme (the "Scheme") for a period of 10 years commencing from 8 December 2015 for the grant of options over ordinary shares as incentive or reward for the grantees for their contribution or potential contribution to the Group.

Under the Scheme, the Company may grant options to eligible participants, who include amongst others full-time or part-time employees, chief executive, directors (including executive, non-executive and independent non-executive directors), substantial shareholders, and consultants, professional advisors of the Company or any of its subsidiaries or any investee, who, in the opinion of the directors, will contribute or has contributed to the Group.

During the year ended 30 June 2018, the number of ordinary shares in respect of which options had been granted under the Scheme was 134,957,900 (30 June 2017: 130,900,000), representing 9.4% (2017: 9.7%) of the ordinary shares of the Company in issue at that date. The number of ordinary shares in respect of which options remained outstanding as at 30 June 2018 was 271,721,900 (2017: 261,900,000). The total number of ordinary shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the ordinary shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of ordinary shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the ordinary shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Any grant of options to any director, chief executive or substantial shareholder of the Company, or their associates, is subject to the prior approval of the independent non-executive directors. Any grant to a substantial shareholder or independent non-executive director of the Company, or their associates, that would result in the ordinary shares issued and to be issued on exercise of options granted and to be granted to such person in the 12 months to the date of such grant representing in aggregate over 0.1% of the ordinary shares in issue on the date of grant; and having an aggregate value, based on the closing price of the ordinary shares, in excess of HK$5 million, is subject to prior approval of shareholders.

## 29. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 in aggregate for all options in the relevant grant. Options may be exercised at any time in the period notified to the grantee at the time of offer of the relevant options, which shall not expire later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and must not be less than the higher of (i) the closing price of the Company's ordinary shares on the date of grant; (ii) the average closing price of the ordinary shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary shares.

A resolution of refreshing the Scheme limit by increasing it by 1,309,234,602 ordinary shares was duly passed by way of poll at the annual general meeting held on 12 December 2016.

Options were granted on 30 May 2016 and 23 June 2017 and the estimated fair values of the options granted on those dates was HK$21,206,000 and HK$25,476,000 respectively, which was calculated using the binomial option pricing model based on following data:

| | | |
|---|---|---|
| Date of grant | 23 June 2017 | 30 May 2016 |
| Share price at grant date | HK$0.305 | HK$0.335 |
| Exercise price | HK$0.305 | HK$0.335 |
| Expected volatility | 73.07% | 74.61% |
| Expected life | 10 years | 10 years |
| Risk-free rate | 1.259% | 1.257% |
| Expected dividend yield | 0% | 0% |
| Early exercise multiples | | |
| – Director | 2.8x | 3.0x |
| – Employees | 2.2x | 2.5x |

Expected volatility was determined by using the historical volatility of the Company's ordinary share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

## 29. SHARE-BASED PAYMENT TRANSACTIONS (Cont'd)

The following tables disclose movements of the Company's share options held by directors and employees of the Group during both years:

| Categories of participants | Date of grant | Exercisable period | Exercise price *HK$* | Outstanding at 1.7.2017 | Adjusted during the year | Outstanding at 30.6.2018 |
|---|---|---|---|---|---|---|
| Directors | 30.05.2016 | 30.05.2016 – 29.05.2026 | 0.321 | 39,300,000 | 1,729,200 | 41,029,200 |
| Employees | 30.05.2016 | 30.05.2016 – 29.05.2026 | 0.321 | 91,700,000 | 4,034,800 | 95,734,800 |
| | | | | 131,000,000 | 5,764,000 | 136,764,000 |
| Directors | 23.06.2017 | 23.06.2017 – 22.06.2027 | 0.296 | 39,270,000 | 2,840,530 | 42,110,530 |
| Employees | 23.06.2017 | 23.06.2017 – 22.06.2027 | 0.296 | 91,630,000 | 1,217,370 | 92,847,370 |
| | | | | 130,900,000 | 4,057,900 | 134,957,900 |
| Exercisable at the end of the year | | | | | | 271,721,900 |

| Categories of participants | Date of grant | Exercisable period | Exercise price *HK$* | Outstanding at 1.7.2016 | Granted during the year | Outstanding at 30.6.2017 |
|---|---|---|---|---|---|---|
| Directors | 30.05.2016 | 30.05.2016 – 29.05.2026 | 0.335 | 39,300,000 | – | 39,300,000 |
| Employees | 30.05.2016 | 30.05.2016 – 29.05.2026 | 0.335 | 91,700,000 | – | 91,700,000 |
| | | | | 131,000,000 | – | 131,000,000 |
| Directors | 23.06.2017 | 23.06.2017 – 22.06.2027 | 0.305 | – | 39,270,000 | 39,270,000 |
| Employees | 23.06.2017 | 23.06.2017 – 22.06.2027 | 0.305 | – | 91,630,000 | 91,630,000 |
| | | | | – | 130,900,000 | 130,900,000 |
| Exercisable at the end of the year | | | | | | 261,900,000 |

At the end of the reporting period, the exercise price is adjusted due to dilutive effect resulted from the issuance of 2017 Convertible Notes and the weighted average exercise price is HK$0.309 (2017: HK$0.320). During the year ended 30 June 2018, no share-based payment expense (2017: HK$21,206,000) was recognised by the Group in relation to share options granted by the Company.

## 30. CONTINGENT LIABILITIES

The Group had the following outstanding litigations as at 30 June 2018, in which the directors of the Company 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 ("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, 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 Mike Chen (as petitioner), a former director who was removed from office by a resolution passed by the ordinary shareholders in general meeting held on 1 August 2014.

The petition is "On ground that members unfairly prejudiced" and in it the petitioner asserts among other things that Five Star and Gold Seal 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.

## 30. CONTINGENT LIABILITIES (Cont'd)

(b) (Cont'd)

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.

On 20 September 2017, the High Court in Hong Kong made a bankruptcy order against Mike Chen. Based on the legal advice in relation to the petition and in light of Mike Chen's bankruptcy status, the directors are of the opinion that the proceedings are unlikely to proceed. Accordingly, the Group did not recognize any provision for any possible losses in relation to the cases as at 30 June 2018.

## 31. PLEDGED OR SECURED ASSETS

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposit placed for a life insurance policy | **17,670** | 17,226 |
| Leasehold land and building | **199,306** | 203,576 |
| | **216,976** | 220,802 |

## 32. RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group joined the mandatory provident fund scheme (the "MPF Scheme") for all the eligible employees of the Group in Hong Kong.

**Hong Kong retirement scheme**

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK$1,500 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK$1,500. The employees are entitled to 100% of the employer's mandatory contribution upon their retirement at the age of 65, death or total incapacity.

**PRC retirement scheme**

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the respective local municipal government. These PRC subsidiaries are required to contribute 9% to 20% (2017: 9% to 20%) of its basic payroll costs to the scheme/fund. The contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme/fund.

## 32. RETIREMENT BENEFIT SCHEME (Cont'd)

**Finland retirement scheme**

The employees of the Group's subsidiaries which operate in the Finland are required to participate in a retirement scheme, TyEL insurance("TyEL"). These Finland subsidiaries are required to contribute 25.3% (2017: 25.3%) of its basic payroll costs to the scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the scheme.

The aggregate employer's contributions during the year ended 30 June 2018 recognised in profit or loss amounted to HK$861,000 (2017: HK$148,000).

## 33. RELATED PARTY TRANSACTIONS

The Group had the following 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 year ended 30 June 2018, a service fee of HK$653,373 (2017: HK$391,138) 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 22.

**(c)** **Compensation of key management personnel**

The key management of the Group comprises all executive directors of the Company, details of their emoluments and share-based payment transactions are disclosed in notes 12 and 29, respectively.

The remuneration of directors are determined by the board of directors after recommendation from the remuneration committee, having regard to the responsibilities of the directors, the operating results, individual performance and comparable market statistics.

## 34. OPERATING LEASES

At the end of the reporting period, for the Group's investment properties, the Group had contracted with tenants for the following future minimum lease payments.

**The Group as lessor**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **8,681** | 2,310 |
| In the second year to fifth year inclusive | **18,809** | – |
| | **27,490** | 2,310 |

Under the leases entered by the Group, the lease payments are fixed and no arrangements have been entered into for contingent rental payments. The properties held have tenants for a term of ranging from two to three years.

**The Group as lessee**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,706** | 3,323 |
| In the second year to fifth year inclusive | **6,052** | 6,387 |
| Over five years | **–** | 780 |
| | **9,758** | 10,490 |

The minimum lease payments under operating lease recognised as an expense for the year is HK$4,164,000 (2017: HK$3,377,000). Operating lease payments represent rentals payable by the Group for certain of its office properties, leases are negotiated for term of three to seven years.

## 35. CAPITAL COMMITMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of: | | |
| – leasehold improvement in relation to property and equipment | **–** | 1,250 |

## 36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which include amounts due to related parties, bank overdrafts, other borrowing, secured bank borrowings (net of cash and cash equivalents), convertible notes, convertible redeemable preference shares and equity attributable to owners of the Company, comprising issued share capital and reserves as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associate with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 37. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Loans and receivables | | |
| (including cash and cash equivalents) | | |
| – other receivables | **730** | 620 |
| – deposits placed for life insurance policies | **36,258** | 35,034 |
| – bank balances and cash | **332,127** | 354,653 |
| | **369,115** | 390,307 |
| Available-for-sale financial asset | | |
| – available-for-sale investment | **13,592** | 12,616 |
| **Financial liabilities** | | |
| At amortised cost | | |
| – other payables | **2,622** | 5,234 |
| – other borrowing | **3,340** | – |
| – amounts due to related parties | **24,388** | 64,822 |
| – bank overdrafts | **–** | 575 |
| – secured bank borrowings | **105,779** | 107,639 |
| – convertible redeemable preference shares | **–** | 6,446 |
| | **136,129** | 184,716 |
| At FVTPL | | |
| – Convertible notes | **41,359** | – |

**Financial risk management objectives and policies**

The Group's financial instruments include available-for-sale investment, other receivables, deposits placed for life insurance policies, bank balances and cash, other payables, other borrowing, amounts due to related parties, bank overdrafts, secured bank borrowings, convertible notes and convertible redeemable preference shares. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged from prior year.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Market risk*

Currency risk

The Group has foreign currency exposure from the deposit paid for insurance, other receivables, bank balances and other payables which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting dates are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| USD | **99,330** | 145,220 | **1,072** | 2,457 |
| EUR | **44,375** | 35,210 | **901** | 23 |
| TWD | **5,420** | 6,815 | **20** | 1 |
| RMB | **10,075** | – | **31** | – |
| JPY | **5,632** | – | **88** | – |

The management continuously monitors the foreign exchange exposure and will consider hedging foreign currency risk should the need arise.

For the monetary assets and liabilities denominated in USD, since HKD is pegged to USD, the financial impact on exchange difference between HKD and USD is expected to be immaterial and therefore no sensitivity analysis on USD has been prepared.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in HKD against the EUR, TWD, RMB and JPY. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax profit where HKD strengthens 5% against the EUR, TWD, RMB and JPY. For a 5% weakening of HKD against EUR, TWD, RMB and JPY, there would be an equal and opposite impact on the profit and the balances below would be negative.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Market risk* (Cont'd)

Sensitivity analysis (Cont'd)

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| EUR | **1,815** | 1,759 |
| TWD | **225** | 341 |
| RMB | **419** | – |
| JPY | **231** | – |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to deposits placed for life insurance policies, bank balances, floating-rate bank borrowings, bank overdraft and other borrowing (see notes 18, 20, 23 and 24 for details). The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors of the Company consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity period. Accordingly, no sensitivity analysis on short-term bank deposits is presented.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of variable return rate of deposits placed for life insurance policies and HIBOR, Hong Kong dollars Prime Rate and the base rate set by the Ministry of Finance in Finland arising from the Group's borrowings.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Market risk* (Cont'd)

Interest rate risk (Cont'd)

Sensitivity analysis

The sensitivity analyses below had been determined based on the exposure to interest rates for floating rate deposits placed for life insurance policies, bank overdrafts, secured bank borrowings and other borrowing at the reporting dates and the stipulated changes taking place at the beginning of the year and held constant throughout the year. The analysis was prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on floating-rate deposits placed for life insurance policies, bank overdrafts, secured bank borrowings and other borrowing had been 50 basis points higher/lower and all other variables were held constant, the post-tax profit for the year ended 30 June 2018 would decrease/increase by approximately HK$304,000 (2017: HK$306,000).

Other price risk

The Group is exposed to other price risk mainly through its available-for-sale investment and convertible notes. Management has closely monitor the other price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risks at the end of the reporting period. 5% (2017: 5%) increase or decrease is used when reporting exposure to other price risk internally to key management personnel and represents management's assessment of the reasonably possible change in price.

If the prices of the available-for-sale investment had been 5% (2017: 5%) higher/lower, investment revaluation reserve for the year ended 30 June 2018 would increase/decrease by approximately HK$680,000 (2017: increase/decrease by HK$631,000) as a result of the changes in fair value of available-for-sale investment.

If the share prices of the Company had been 5% (2017: Nil) higher/lower, post-tax profit for the year ended 30 June 2018 would decrease/increase by approximately HK$2,068,000 (2017: Nil) as a result of the changes in fair value of convertible notes.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Credit risk*

Maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risks are significantly reduced.

The Group's credit risk on liquid funds is limited because majority of the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Deposits paid for life insurance policies with carrying amount of approximately HK$36,258,000 (2017: HK$35,034,000) were the deposits placed into insurance companies. However, having considered the strong financial background of these insurance companies, the directors of the Company believes that there is no significant credit risk.

*Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings, other borrowing and amounts due to related parties as sources of liquidity.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Liquidity risk* (Cont'd)

Liquidity and interest risk tables

| | Weighted average interest rate | On demand | Less than 3 months | 3 months to 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amounts |
|---|---|---|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 June 2018** | | | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | | | |
| Other payables | N/A | 2,622 | – | – | – | – | – | 2,622 | 2,622 |
| Bank borrowings | 2.49% | 105,779 | – | – | – | – | – | 105,779 | 105,779 |
| Amounts due to related parties | N/A | 24,388 | – | – | – | – | – | 24,388 | 24,388 |
| Other borrowing | 1% | – | – | – | – | 2,624 | 716 | 3,340 | 3,340 |
| | | 132,789 | – | – | – | 2,624 | 716 | 136,129 | 136,129 |
| *Derivative financial instruments* | | | | | | | | | |
| Convertible notes | N/A | – | – | – | – | – | 48,545 | 48,545 | 41,359 |

| | Weighted average interest rate | On demand | Less than 3 months | 3 months to 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total undiscounted cash flows | Total carrying amounts |
|---|---|---|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 30 June 2017 | | | | | | | | | |
| *Non-derivative financial liabilities* | | | | | | | | | |
| Other payables | N/A | 5,234 | – | – | – | – | – | 5,234 | 5,234 |
| Bank borrowings | 1.89% | 107,639 | – | – | – | – | – | 107,639 | 107,639 |
| Amounts due to related parties | N/A | 64,822 | – | – | – | – | – | 64,822 | 64,822 |
| Bank overdraft | 5.00% | 575 | – | – | – | – | – | 575 | 575 |
| Convertible redeemable preference shares | N/A | 6,446 | – | – | – | – | – | 6,446 | 6,446 |
| | | 184,716 | – | – | – | – | – | 184,716 | 184,716 |

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Financial risk management objectives and policies** (Cont'd)

*Liquidity risk* (Cont'd)

Secured bank borrowings with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 30 June 2018, the aggregate undiscounted principal amounts of these secured bank borrowings amounted to HK$163,032,000 (2017: HK$141,375,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such secured bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

| | Weighted average interest rate | Less than 3 months<br>*HK$'000* | 3 months to 1 year<br>*HK$'000* | 1 to 2 years<br>*HK$'000* | 2 to 5 years<br>*HK$'000* | Over 5 years<br>*HK$'000* | Total undiscounted cash flows<br>*HK$'000* | Total carrying amounts<br>*HK$'000* |
|---|---|---|---|---|---|---|---|---|
| **Secured bank borrowings** | | | | | | | | |
| As at 30 June 2018 | 2.49% | 14,430 | 4,026 | 5,368 | 16,105 | 123,103 | 163,032 | 105,779 |
| As at 30 June 2017 | 1.89% | 13,803 | 3,337 | 4,450 | 13,349 | 106,436 | 141,375 | 107,639 |

**Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of club debenture classified as available-for-sale debt investment is determined with reference to market price;
- the fair value of convertible notes is determined based on quoted market prices in active markets; and
- the fair value of loans and receivables and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

*Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Fair value** (Cont'd)

*Fair value measurements recognised in the consolidated statement of financial position* (Cont'd)

- Level 1 fair value measurements 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).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | | 30 June 2018 | |
|---|---|---|---|
| | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Available-for-sale financial asset** | | | |
| Club debenture | **–** | **13,592** | **13,592** |
| **Financial liabilities at FVTPL** | | | |
| Convertible notes | **41,359** | **–** | **41,359** |

| | 30 June 2017 |
|---|---|
| | Level 2 and total |
| | *HK$'000* |
| **Available-for-sale financial asset** | |
| Club debenture | 12,616 |

| **Financial assets and liabilities** | **Fair values as at 30.06.2018** | 30.06.2017 | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** | **Sensitivity/relationship of inputs to fair value** |
|---|---|---|---|---|---|
| Convertible notes | **Liabilities – HK$41,359,000** | Liabilities – HK$Nil | Level 2 | Expected cash flows are estimated based on underlying share prices (from observable market share price at the end of the reporting period) | An increase in the share price of the Company by 5% would result in a significant increase in the fair value of the convertible notes by approximately HK$2,068,000 (2017: Nil), and vice versa. |
| Club debenture | **Assets – HK$13,592,000** | Assets – HK$12,616,000 | Level 3 | Direct comparison method – the key inputs are market price of similar club debentures | An increase in the market price used by 5% would result in a significant increase in the fair value of the investments by approximately HK$680,000 (2017: HK$631,000), and vice versa. |

There were no transfers between Level 2 and 3 in the current year.

## 37. FINANCIAL INSTRUMENTS (Cont'd)

**Fair value** (Cont'd)

*Fair value measurements recognised in the consolidated statement of financial position* (Cont'd)

Reconciliation of Level 3 fair value measurements

| | Club debenture | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| Opening balance | **12,616** | 12,060 |
| Gains on fair value charge to other comprehensive income | **976** | 556 |
| Closing balance | **13,592** | 12,616 |

## 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Interest payables | Amounts due to related parties | Secured bank borrowings | Other borrowings | Convertible notes | Convertible redeemable preference shares | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note 22)* | *(Note 23)* | *(Note 24)* | *(Note 25)* | *(Note 26)* | |
| At 1 July 2017 | – | 64,822 | 107,639 | – | – | 6,446 | 178,907 |
| Financing cash flows | (2,533) | (40,434) | (1,860) | 3,340 | 46,929 | (6,446) | (1,004) |
| Interest expenses | 2,728 | – | – | – | – | – | 2,728 |
| Direct attributable cost | – | – | – | – | 1,623 | – | 1,623 |
| Fair value change | – | – | – | – | (7,186) | – | (7,186) |
| Conversion into ordinary shares | – | – | – | – | (7) | – | (7) |
| At 30 June 2018 | 195 | 24,388 | 105,779 | 3,340 | 41,359 | – | 175,061 |

## 39. MAJOR NON-CASH TRANSACTIONS

During the year ended 30 June 2017, a loan from an independent third party amounted to HK$92,743,000 was assigned to Cityguard Holdings Limited, a related party and included in amounts due to related parties. During the year ended 30 June 2017, the amount due to Cityguard Holdings Limited was further offset by other receivables amounted to HK$11,046,000 as agreed and assigned to Cityguard Holdings Limited.

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued share capital | Proportion of nominal value of issued share capital held by the Company at 30 June | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | |
| | | | Directly | Indirectly | Directly | Indirectly | |
| Banhart Company Limited | Hong Kong | Ordinary HK$9,998<br><br>Non-voting deferred* HK$2 | – | 100% | – | 100% | Investment holding |
| Sensors Integration Technology Limited | Hong Kong | Ordinary HK$2,597,634 | – | 100% | – | 100% | Investment holding |
| Magetta Company Limited | Hong Kong | Ordinary HK$2 | 100% | – | 100% | – | Investment holding |
| Master Era Limited | Hong Kong | Ordinary HK$1 | – | 100% | – | 100% | Management and operating |
| Acme Elite Limited | British Virgin Islands | US$1 | 100% | – | 100% | – | Property investment |
| Afar Success Limited | British Virgin Islands | US$1 | 100% | – | 100% | – | Property investment |
| Prime Supreme Corporation | British Virgin Islands | US$1 | 100% | – | 100% | – | Investment holding |
| Upwill Limited | Hong Kong | Ordinary HK$1 | – | 100% | – | 100% | Property investment |
| Legacy One Asia Limited | British Virgin Islands | US$1 | 100% | – | 100% | – | Investment holding |
| East Top (Hong Kong) Limited | Hong Kong | Ordinary HK$1 | – | 100% | – | 100% | Property investment |
| Next Level A.I. Solution System LLC | The United States of America ("USA") | US$2,000,000 | – | 100% | – | 100% | Research and development |
| Next Level Security System LLC | USA | US$1,000,000 | – | 100% | – | 100% | Research and development |
| Next Level Medical System LLC | USA | US$1,000,000 | – | 100% | – | 100% | Research and development |
| 百利鼎有限公司 | Taiwan | TW$29,800,000 | – | 100% | – | 100% | Research and development |
| Naving Oy | Finland | EU$2,008,571 | – | 70% | – | 70% | Research and development |

## 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation/ registration and operation | Nominal value of issued share capital | Proportion of nominal value of issued share capital held by the Company at 30 June 2018 Directly | 2018 Indirectly | 2017 Directly | 2017 Indirectly | Principal activities |
|---|---|---|---|---|---|---|---|
| Pexray Oy | Finland | EU$2,008,571 | **–** | **70%** | – | 70% | Research and development |
| Dynim Oy *(Note)* | Finland | EU$2,008,571 | **–** | **70%** | – | – | Research and development |
| Skyin Technology Limited *(Note)* | Hong Kong | HK$11,750,140 | **70%** | – | – | – | Investment holding |
| 上海簡慈信息科技有限公司# *(Note)* | People's republic of China | US$1,500,000 | **–** | **100%** | – | – | Research and development |
| Able A. I. Technology Japan Company Limited *(Note)* | Japan | JPY85,085,000 | **–** | **100%** | – | – | Research and development |

\# A wholly foreign owned enterprise

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or to vote at any general meetings of the company or to participate in any distribution on winding up.

*Note:* The companies were set up during the year.

The above lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the year.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong and British Virgin Island ("BVI"). The principal activities of these subsidiaries are summarised as follows:

| Principal activities | Principal places of businesses | Number of subsidiaries 2018 | 2017 |
|---|---|---|---|
| Investment holding | BVI, Hong Kong, Seychelles, Anguilla | **10** | 10 |
| Dormant/inactive companies | Hong Kong, USA, Malaysia, Russia | **4** | 4 |

## 41. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period is set out below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current assets | | |
| Investments in subsidiaries | **45,060** | 33,360 |
| Available-for-sale investment | **13,592** | 12,616 |
| Amounts due from subsidiaries | **351,857** | 337,297 |
| Loan receivables from subsidiaries | **495,874** | 484,155 |
| | **906,383** | 867,428 |
| Current assets | | |
| Other receivables | **378** | 358 |
| Bank balances | **158,653** | 190,454 |
| | **159,031** | 190,812 |
| Current liabilities | | |
| Other payable and accrued charges | **2,932** | 487 |
| Amount due to a related party | **6,111** | 9,071 |
| Amounts due to subsidiaries | **30,173** | 58,539 |
| Convertible notes | **41,359** | – |
| Convertible redeemable preference shares | **–** | 6,446 |
| Tax payables | **298** | 298 |
| | **80,873** | 74,841 |
| Net current assets | **78,158** | 115,971 |
| Total assets less current liabilities | **984,541** | 983,399 |
| Capital and reserve | | |
| Share capital | **14,361** | 13,428 |
| Reserves *(Note)* | **970,180** | 969,971 |
| Total equity | **984,541** | 983,399 |

## 41. FINANCIAL INFORMATION OF THE COMPANY (Cont'd)

*Note:* Movements of the Company's reserves during the current and prior years are as follows:

| | Share premium | Capital reserve | Treasury shares reserve | Other reserve | Investment revaluation reserve | Convertible notes reserve | Share options reserve | Accumulated (losses) profit | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 July 2016 | 166,403 | 6,190 | (5,255) | 21,766 | 2,372 | 13,930 | 25,476 | 784,129 | 1,015,011 |
| Loss for the year | – | – | – | – | – | – | – | (73,202) | (73,202) |
| Other comprehensive income for the year | – | – | – | – | 556 | – | – | – | 556 |
| Total comprehensive expense for the year | – | – | – | – | 556 | – | – | (73,202) | (72,646) |
| Issue of shares on conversion of convertible redeemable preference shares | 10,244 | (3,116) | – | – | – | – | – | – | 7,128 |
| Recognition of equity-settled share-based payment | – | – | – | – | – | – | 21,206 | – | 21,206 |
| Shares repurchased | – | – | (917) | – | – | – | – | – | (917) |
| Shares cancelled | (5,630) | – | 5,824 | – | – | – | – | – | 194 |
| Transaction costs attributable to repurchase of ordinary shares | (32) | – | 27 | – | – | – | – | – | (5) |
| Lapsed of conversion rights | – | (3,074) | – | – | – | – | – | 3,074 | – |
| At 30 June 2017 | 170,985 | – | (321) | 21,766 | 2,928 | 13,930 | 46,682 | 714,001 | 969,971 |
| Loss for the year | – | – | – | – | – | – | – | (19,217) | (19,217) |
| Other comprehensive income for the year | – | – | – | – | 976 | – | – | – | 976 |
| Total comprehensive expense for the year | – | – | – | – | 976 | – | – | (19,217) | (18,241) |
| Issue of shares on conversion of convertible notes | 4,040 | – | – | – | – | (4,208) | – | – | (168) |
| Issue of shares on conversion of 2017 convertible notes | 7 | – | – | – | – | – | – | – | 7 |
| Shares cancelled | (311) | – | 321 | – | – | – | – | – | 10 |
| Issue of shares on open offer of convertible note with share alternative | 18,601 | – | – | – | – | – | – | – | 18,601 |
| At 30 June 2018 | 193,322 | – | – | 21,766 | 3,904 | 9,722 | 46,682 | 694,784 | 970,180 |

# Financial Summary

## RESULTS

| | Year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Revenue | 330 | – | 11,433 | 14,446 | **7,542** |
| Profit (loss) before taxation | 195,495 | (120,713) | 733,569 | 96,974 | **12,022** |
| Taxation | – | – | – | (298) | **–** |
| Profit (loss) profit for the year attributable to | | | | | |
| – Owners of the Company | 195,495 | (120,713) | 733,569 | 96,899 | **16,284** |
| – Non-controlling interests | – | – | – | (223) | **(4,262)** |

## ASSETS AND LIABILITIES

| | At 30 June | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | **2018** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 1,075,041 | 1,074,334 | 1,130,755 | 1,216,486 | **1,244,497** |
| Total liabilities | (923,766) | (931,789) | (233,653) | (192,888) | **(187,661)** |
| Total equity | 151,275 | 142,545 | 897,102 | 1,023,598 | **1,056,836** |

# Schedule of Property Interests

Particulars of the properties held by the Group as at 30 June 2018 are as follows:

**(a) Investment properties**

| **Address** | **Purpose** | **Approximate saleable area** *(Sq. ft.)* | **Lease term** |
|---|---|---|---|
| 20/F, AXA Centre<br>No. 151 Gloucester Road<br>Hong Kong | Commercial | 11,722 | Long |
| 21/F, AXA Centre<br>No. 151 Gloucester Road<br>Hong Kong | Commercial | 11,722 | Long |
| Car parking spaces<br>Nos. 414 – 420 AXA Centre<br>No. 151 Gloucester Road<br>Hong Kong | Commercial | – | Long |

**(b) Owner-occupied properties**

| **Address** | **Purpose** | **Approximate saleable area** *(Sq. ft.)* | **Lease term** |
|---|---|---|---|
| Unit 3A, Cluny Park<br>No. 53 Conduit Road<br>Hong Kong | Residential | 2,551 | Medium |
| Unit 3B, Cluny Park<br>No. 53 Conduit Road<br>Hong Kong | Residential | 2,384 | Medium |
| Car parking spaces<br>Nos. P12 and P16 Cluny Park<br>No. 53 Conduit Road<br>Hong Kong | Residential | – | Medium |