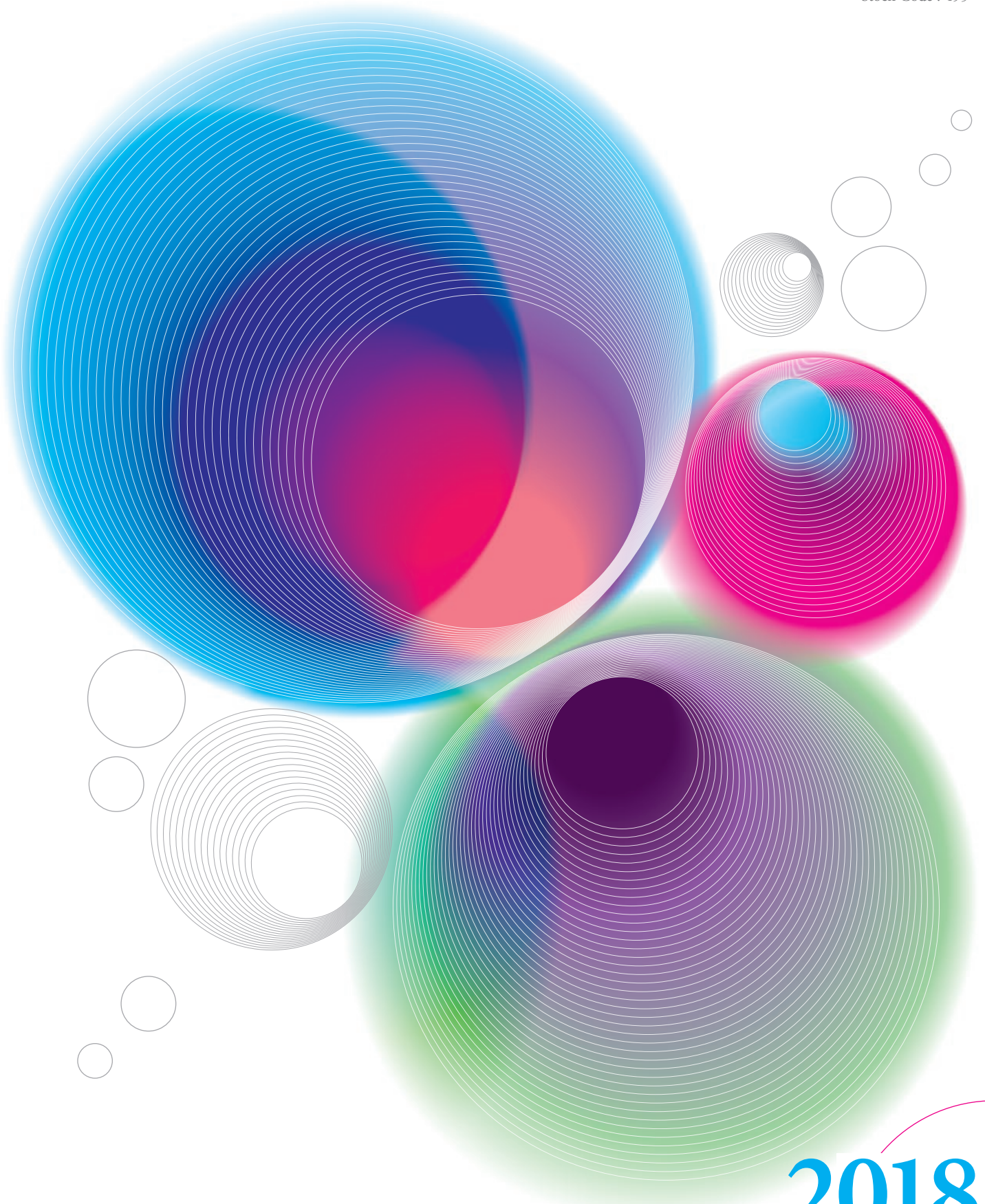


PALADIN LIMITED

(incorporated in Bermuda with limited liability)

Stock Code : 495



2018

Interim Report

For the six months ended
31 December 2018

CORPORATE INFORMATION



DIRECTORS

Executive Directors:

Oung Shih Hua, James (*Chairman*)

Non-executive Directors:

Chan Chi Ho

Yuen Chi Wah

Independent Non-executive Directors:

Au Chik Lam Alexander

Liu Man Kin Dickson

Luo Rongxuan

COMPANY SECRETARY

Chan Chi Ho

AUDITOR

RSM Hong Kong

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 is property investment, research and development of high technology system and applications.

BUSINESS REVIEW AND PROSPECTS

Properties Investment

Turnover of the Group for the six months ended 31 December 2018 under review comprising rental income from its investment properties amounted to approximately HK\$4 million (2017: HK\$2 million).

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. 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 diversity the investments.

Grant of options

The Company granted an aggregate of 126,000,000 options under the Company's Share Option Scheme on 9 November 2018.



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, net current assets of the Group were approximately HK\$130 million. The current ratio was 1.75. The bank balances and cash were approximately HK\$297 million.

As at 31 December 2018, the Group has outstanding liabilities of approximately HK\$181 million comprising (i) other payables and accrued charges of approximately HK\$12 million, (ii) amounts due to related parties of approximately HK\$19 million, (iii) bank loans of approximately HK\$104 million and (iv) convertible notes of approximately HK\$37 million and (v) other borrowings of approximately HK\$9 million. The bank borrowings are on floating interest rates basis.

The majority of the Group's assets and borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. In view of the stability of the exchange rate of HK dollars and US dollars, the directors consider that the Group has no significant exposure to exchange fluctuation and does not hedge against foreign exchange risk.

The Group's bank borrowings were secured by leasehold land and buildings of approximately HK\$197 million and deposit placed for a life insurance policy of approximately HK\$18 million.

The Group's gearing ratio as determined by total debt divided by total assets was approximately 15%.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2018, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2018, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed a total of 37 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2018, there was a contingent liability in respect of a legal proceeding against the Company. No specific claim amount has been specified in the application of this claim. In the opinion of the directors, the claim was remote and no provision has been made in the consolidated financial statements.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2018.

DIRECTORS' REPORT

DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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	39,772,190	2,620,833	55,497,189	3.86%
Chan Chi Ho	Beneficial owner	–	39,772,190	–	39,772,190	2.77%
Yuen Chi Wah	Beneficial owner	–	39,772,190	–	39,772,190	2.77%

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

Other than as disclosed above, as at 31 December 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.

DIRECTORS' REPORT (Cont'd)



SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 positions 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	39,772,190	15,000,000	129,772,190	9.04%
	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	39,772,190	243,605,681	1,176,614,613	81.93%
Ms. Hsu Ong Hsiao Ling	Beneficial owner	–	39,772,190	–	39,772,190	2.77%
	Interest of a controlled corporation (Note d)	309,388,211	–	228,605,681	537,993,892	37.46%
		309,388,211	39,772,190	228,605,681	577,766,082	40.23%

Notes:

- Basurto Holdings Limited is held by Mr. Oung Da Ming on trust for the estate of his deceased mother, Ms. Oung Chin Liang Fung (as to 67%) and his sister, Ms. Lilian Oung (as to 33%).
- Cityguard Holdings Limited, is a wholly-owned subsidiary of Five Star Investments Limited.
- Five Star Investments Limited is directly and individually (through Basurto Holdings Limited) owned as to 67% by the estate of Ms. Oung Chin Liang Fung, grandmother of Dr. Oung Shih Hua, James, and 33% by Ms. Lilian Oung, his aunt. See note (a) above.
- Gold Seal Holdings Limited is owned as 33.33% by Mr. Oung Da Ming and 67.67% by his sister, Ms. Hsu Ong Hsiao Ling.
- 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.

DIRECTORS' REPORT (Cont'd)

Other than as disclosed above, as at 31 December 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

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

Share options comprising a total of 397,721,900 underlying Shares (the "Options") were granted under the Share Option Scheme to certain employees of the Group and Directors on 30 May 2016, 23 June 2017 and 9 November 2018 respectively. Details of the movements of the share options during the period are as follows:

Grantees	Outstanding as at 01.07.2018	Number of Options				Outstanding as at 31.12.2018	Exercise price per Share HK\$	Grant Date	Exercise period
		Granted during the period	Cancelled during the period	Lapsed during the period	Exercise during the period				
Directors									
Oung Shih Hua, James	13,676,400	-	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,495,790	-	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
	-	12,600,000	-	-	-	12,600,000	0.179	9 November 2018	9 November 2018 – 8 November 2028
Chan Chi Ho	13,676,400	-	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,495,790	-	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
	-	12,600,000	-	-	-	12,600,000	0.179	9 November 2018	9 November 2018 – 8 November 2028
Yuen Chi Wah	13,676,400	-	-	-	-	13,676,400	0.321	30 May 2016	30 May 2016 – 29 May 2026
	13,495,790	-	-	-	-	13,495,790	0.296	23 June 2017	23 June 2017 – 22 June 2027
	-	12,600,000	-	-	-	12,600,000	0.179	9 November 2018	9 November 2018 – 8 November 2028
Employees and others (in aggregate)	95,734,800	-	-	-	-	95,734,800	0.321	30 May 2016	30 May 2016 – 29 May 2026
	94,470,530	-	-	-	-	94,470,530	0.296	23 June 2017	23 June 2017 – 22 June 2027
	-	88,200,000	-	-	-	88,200,000	0.179	9 November 2018	9 November 2018 – 8 November 2028

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



PURCHASE, SALE AND REDEMPTION OF SHARES

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

MAJOR SUPPLIERS AND CUSTOMERS

The Group did not have any purchases and suppliers during the six months ended 31 December 2018. During the period, both the aggregate revenue attributable to the five largest customers and the largest customer of the Group were 100% of the revenue arising from the investment properties the Group. The major customers are independent parties to the Company during the period. To the knowledge of the Directors, none of the directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers during the year.

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 31 December 2018, a total amount of HK\$16 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 <i>HK\$'000</i>	Amount utilised up to 31 December 2018 <i>HK\$'000</i>	Unused proceeds as at 31 December 2018 <i>HK\$'000</i>	Expected timeframe
• 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	16,400	–	
Total	<u>63,200</u>	<u>16,400</u>	<u>46,800</u>	

DIRECTORS' REPORT (Cont'd)

AUDIT COMMITTEE

The interim results for the six months ended 31 December 2018 has not been audited by the Group's auditor, but the Audit Committee has reviewed with management the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2018.

CORPORATE GOVERNANCE

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

- the non-executive directors and independent non-executive directors are not appointed for a specific term in accordance with code provision A.4.1 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the bye-laws of the Company.
- under code provision A.6.7 of the Code, independent non-executive directors and other non-executive directors should attend general meetings of the Company. Certain independent non-executive directors of the Company were unable to attend the annual general meeting of the Company as they had other business commitment.
- under the Code provision A.2.1, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. Dr. Oung Shih Hua, James is the Chairman of the Company and the Company currently does not appoint any new Chief Executive Officer. In the opinion of the Board, Dr. Oung temporarily acts as the role of the Chief Executive Officer. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution.
- code provision A.5.6 requires that the nomination committee should have a policy concerning diversity of board members. The Company does not consider it necessary to have a policy concerning diversity of board members. Board appointments are based on merit, in the context of the skills, experience and expertise that the selected candidates will bring to the Board. While the Company is committed to equality of opportunity in all aspects of its business and endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives, the Company does not consider a formal board diversity policy will provide measurable benefits to enhance the effectiveness of the Board.

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

DIRECTORS' REPORT (Cont'd)



MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors of the Company and the directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 31 December 2018.

By order of the Board
Oung Shih Hua, James
CHAIRMAN

Hong Kong, 28 February 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2018

		Six months ended	
		31 December	
		2018	2017
	NOTE	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	4,341	2,157
Other income		57	2,324
Other (losses)/gains	6	(4,430)	30,572
Administrative expenses		(47,965)	(24,725)
		<hr/>	<hr/>
(Loss)/profit from operations		(47,997)	10,328
Finance costs	7	(1,782)	(1,256)
Share of loss of an associate		(1,348)	(1,497)
		<hr/>	<hr/>
(Loss)/profit before tax		(51,127)	7,575
Income tax expense	8	–	–
		<hr/>	<hr/>
(Loss)/profit for the period	9	(51,127)	7,575
		<hr/>	<hr/>
Other comprehensive income:			
<i>Items that will be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(1,149)	2,447
Fair value gain on available-for-sale investment		–	780
		<hr/>	<hr/>
Other comprehensive income for the period, net of tax		(1,149)	3,227
		<hr/>	<hr/>
Total comprehensive income for the period		(52,276)	10,802
		<hr/> <hr/>	<hr/> <hr/>

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

For the Six Months ended 31 December 2018

	NOTE	Six months ended	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:			
Owners of the Company		(48,117)	9,221
Non-controlling interests		(3,010)	(1,646)
		<u>(51,127)</u>	<u>7,575</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		(49,028)	12,448
Non-controlling interests		(3,248)	(1,646)
		<u>(52,276)</u>	<u>10,802</u>
(Loss)/earnings per share			
Basic (HK cents per share)	11	<u>(3.35)</u>	<u>0.68</u>
Diluted (HK cents per share)		<u>(3.35)</u>	<u>0.52</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTE	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Non-current assets			
Investment properties	12	634,200	642,170
Property, plant and equipment	13	207,054	210,186
Interest in an associate	14	1,451	2,799
Financial assets at fair value through profit or loss	15	52,701	–
Available-for-sale investment	15	–	13,592
Deposits placed for life insurance policies	15	–	36,258
Total non-current assets		895,406	905,005
Current assets			
Other receivables, deposits and prepayments		5,041	7,365
Bank and cash balances		297,305	332,127
Total current assets		302,346	339,492
Current liabilities			
Other payables and accrued charges		11,509	12,497
Due to related parties	16	19,341	24,388
Current tax liabilities		298	298
Secured bank borrowings	17	104,382	105,779
Convertible notes	18	37,282	41,359
Total current liabilities		172,812	184,321
Net current assets		129,534	155,171
Total assets less current liabilities		1,024,940	1,060,176
Non-current liabilities			
Other borrowings	19	8,660	3,340
NET ASSETS		1,016,280	1,056,836
CAPITAL AND RESERVES			
Share capital	20	14,361	14,361
Reserves		1,007,967	1,045,810
Equity attributable to owners of the Company		1,022,328	1,060,171
Non-controlling interests		(6,048)	(3,335)
TOTAL EQUITY		1,016,280	1,056,836

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Convertible notes reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 July 2017 (audited)	13,428	170,985	21,445	(341)	5,116	13,930	46,682	751,933	1,023,178	420	1,023,598
Total comprehensive income for the period	-	-	-	2,447	780	-	-	9,221	12,448	(1,646)	10,802
Issue of shares upon conversion of 2014 Convertible Notes (note 18(b))	168	4,040	-	-	-	(4,208)	-	-	-	-	-
Shares cancelled (note 20)	(10)	(311)	321	-	-	-	-	-	-	-	-
Issue of shares on open offer of convertible notes with share alternative (note 18(a))	775	18,601	-	-	-	-	-	-	19,376	-	19,376
Changes in equity for the period	933	22,330	321	2,447	780	(4,208)	-	9,221	31,824	(1,646)	30,178
At 31 December 2017 (unaudited)	14,361	193,315	21,766	2,106	5,896	9,722	46,682	761,154	1,055,002	(1,226)	1,053,776
At 1 July 2018 (audited)	14,361	193,322	21,766	9	6,092	9,722	46,682	768,217	1,060,171	(3,335)	1,056,836
Adjustment on initial application of HKFRS 9 (note 3)	-	-	-	-	(6,092)	-	-	6,092	-	-	-
Restated at 1 July 2018 (unaudited)	14,361	193,322	21,766	9	-	9,722	46,682	774,309	1,060,171	(3,335)	1,056,836
Capital contribution to a non-wholly owned subsidiary	-	-	-	-	-	-	-	(445)	(445)	445	-
Capital contribution from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	90	90
Total comprehensive income for the period	-	-	-	(911)	-	-	-	(48,117)	(49,028)	(3,248)	(52,276)
Share-based payments (note 21)	-	-	-	-	-	-	11,630	-	11,630	-	11,630
Changes in equity for the period	-	-	-	(911)	-	-	11,630	(48,562)	(37,843)	(2,713)	(40,556)
At 31 December 2018 (unaudited)	14,361	193,322	21,766	(902)	-	9,722	58,312	725,747	1,022,328	(6,048)	1,016,280

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months ended 31 December 2018

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(30,896)</u>	<u>(15,913)</u>
Bank interest received	57	22
Purchases of property, plant and equipment	<u>(31)</u>	<u>(973)</u>
Net cash generated from/(used in) investing activities	<u>26</u>	<u>(951)</u>
Repayment to related parties	(5,047)	(34,721)
Repayment of bank borrowings	(1,397)	(1,151)
Other borrowings raised	5,320	–
Interest paid	(1,782)	(1,229)
Capital contribution from a non-controlling shareholder of a subsidiary	90	–
Redemption of convertible redeemable preference shares	–	(6,446)
Cash received from open offer of convertible notes with share alternative	–	67,928
Direct attributable costs in relation to open offer of convertible notes with share alternative	<u>–</u>	<u>(1,623)</u>
Net cash (used in)/generated from financing activities	<u>(2,816)</u>	<u>22,758</u>
Net (decrease)/increase in cash and cash equivalents	(33,686)	5,894
Cash and cash equivalents at beginning of period	332,127	354,078
Effect of foreign exchange rate changes	(1,136)	2,459
Cash and cash equivalents at end of period, represented by	<u><u>297,305</u></u>	<u><u>362,431</u></u>
Bank and cash balances	297,305	362,522
Bank overdrafts	<u>–</u>	<u>(91)</u>
	<u><u>297,305</u></u>	<u><u>362,431</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 31 December 2018

1. GENERAL INFORMATION

Paladin Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda. The address of its principal place of business is Suite 705, 7th Floor, Sun Life Tower, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of its subsidiaries are property investment and research and development. The Company and its subsidiaries are collectively referred to as the “Group”.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed consolidated financial statements should be read in conjunction with the 2018 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 30 June 2018 except as stated below.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2018. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations.

The Group has initially adopted HKFRS 9 Financial Instruments from 1 July 2018. A number of other new standards are effective from 1 July 2018 but they do not have a material effect on the Group’s consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

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

For the Six Months ended 31 December 2018

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

The adoption of HKFRS 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of HKFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening accumulated profits of the current period.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial assets at its fair value plus, in the case of a financial assets not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(b) Measurement (Cont'd)

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

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

For the Six Months ended 31 December 2018

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(b) Measurement (Cont'd)

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 July 2018.

Financial assets	Note	Classification	Classification	Carrying	Carrying
		under HKAS 39	under HKFRS 9	amount under HKAS 39 HK\$'000	amount under HKFRS 9 HK\$'000
Golf club membership	(a)	Available-for-sale	FVTPL	13,592	13,592
Deposits placed for life insurance policies	(b)	Loans and receivables	FVTPL	39,646	39,646

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

For the Six Months ended 31 December 2018

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

The impact of these changes on the Group's equity is as follows:

		Effect on investment revaluation reserve for available-for-sale investment	Effect on accumulated profits
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance – HKAS 39		6,092	768,217
Reclassify golf club membership from available-for-sale to financial assets at FVTPL	(a)	(6,092)	6,092
		<hr/>	<hr/>
Opening balance – HKFRS 9		–	774,309
		<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) Golf club membership that was previously classified as available-for-sale is now classified at FVTPL. Upon initial application of HKFRS 9, investment revaluation reserve of approximately HK\$6,092,000 related to the available-for-sale investment is transferred to the opening accumulated profits at 1 July 2018.
- (b) Deposits placed for life insurance policies that were previously classified as loans and receivables and carried at amortised cost are now classified as FVTPL since the contractual cash flows do not consist solely of payments of principal and interest on the principal amount outstanding. 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.

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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.



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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS (Cont'd)

(a) Disclosures of level in fair value hierarchy at 31 December 2018:

Description	(Unaudited)			Total HK\$'000
	Fair value measurements as at 31 December 2018 using:			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Financial assets:				
Financial assets at FVTPL				
– Golf club membership	–	–	12,450	12,450
– Deposits placed for life insurance policies	–	40,251	–	40,251
	–	40,251	12,450	52,701
Investment properties				
– Tenant occupied office premises/ car parks located in Hong Kong	–	–	314,900	314,900
– Vacant office premises/ car parks located in Hong Kong	–	–	319,300	319,300
	–	–	634,200	634,200
Total	–	40,251	646,650	686,901
Financial liabilities:				
2017 Convertible Notes	–	37,282	–	37,282

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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS (Cont'd)

(a) Disclosures of level in fair value hierarchy at 31 December 2018: (Cont'd)

Description	(Audited)			Total HK\$'000
	Fair value measurements as at 30 June 2018 using:			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Financial assets:				
Available-for-sale investment				
– Golf club membership	–	–	13,592	13,592
Investment properties				
– Tenant occupied office premises/ car parks located in Hong Kong	–	–	319,100	319,100
– Vacant office premises/ car parks located in Hong Kong	–	–	323,070	323,070
	–	–	642,170	642,170
Total	–	–	655,762	655,762
Financial liabilities:				
2017 Convertible Notes	–	41,359	–	41,359

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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS (Cont'd)

(b) Reconciliation of assets measured at fair value based on Level 3:

	Golf club membership		Investment properties	
	Six months ended		Six months ended	
	31 December		31 December	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At beginning of period	13,592	12,616	642,170	579,520
Total gains or losses recognised				
– in profit or loss	(1,142)	–	(7,970)	28,820
– in other comprehensive income	–	780	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of period	12,450	13,396	634,200	608,340
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The total gains or losses recognised in other comprehensive income are presented in investment revaluation reserve in the condensed consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other gains/(losses) in the condensed consolidated statement of profit or loss and other comprehensive income.

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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS (Cont'd)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's Board of Directors is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including Level 3 fair value measurements. For Level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs
Golf club membership	Direct comparison method	Market price of similar club debentures	N/A	Increase
Investment properties				
– Tenant occupied office premises/car parks located in Hong Kong	Income approach	Term and reversion approach with key inputs of vacant possession value	HK\$26,624 to HK\$27,792 (30 June 2018: HK\$26,219 to HK\$26,885) per sq. ft. on saleable area basis	Increase
– Vacant office premises car parks located in Hong Kong	Direct comparison method	Market unit rate of similar properties and applied adjustment rate on difference in location, view, floor area, lot size, age and condition of the properties under review	HK\$26,624 to HK\$27,792 (30 June 2018: HK\$26,219 to HK\$26,885) per sq. ft. on saleable area basis	Increase

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

For the Six Months ended 31 December 2018

4. FAIR VALUE MEASUREMENTS (Cont'd)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018: (Cont'd)

Level 2 fair value measurements

Description	Valuation technique	Inputs
Deposits placed for life insurance policies	Expected cash flows	Cash value quoted by the insurance companies
2017 Convertible Notes	Expected cash flows	Underlying share prices (from observable market share price at the end of the reporting period)

There were no changes in the valuation techniques used.

5. REVENUE AND SEGMENT INFORMATION

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

The Group has two operating segments as follows:

- Property investment: rental income from leasing out the properties; and
- Research and development: conducting research and development, software and hardware design for the manufacture and sale of a range of high technology products such as portable x-ray systems, advanced algorithm and software solutions, image sensors etc.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include certain other income, fair value changes of convertible notes, impairment loss on interest in an associate, share of losses of an associate and unallocated corporate expenses.

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

For the Six Months ended 31 December 2018

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

	Property investment <i>HK\$'000</i> (Unaudited)	Research and development <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months 31 December 2018:			
Revenue from external customers	4,341	–	4,341
Segment loss	(7,253)	(21,764)	(29,017)
Unallocated expenses			(22,167)
Unallocated income			57
			(51,127)

	Property investment <i>HK\$'000</i> (Unaudited)	Research and development <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Six months 31 December 2017:			
Revenue from external customers	2,157	–	2,157
Segment profit	26,054	–	26,054
Unallocated expenses			(20,662)
Unallocated income			2,183
			7,575

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

For the Six Months ended 31 December 2018

6. OTHER (LOSSES)/GAINS

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value (losses)/gains on investment properties (note 12)	(7,970)	28,820
Fair value losses on financial assets at fair value through profit or loss (note 15)	(537)	–
Fair value gain on convertible notes (note 18(a))	4,077	1,752
	<u>(4,430)</u>	<u>30,572</u>

7. FINANCE COSTS

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	1,750	1,255
Interest on other borrowings	16	–
Interest on bank overdrafts	16	1
	<u>1,782</u>	<u>1,256</u>

8. INCOME TAX EXPENSE

No provision for income tax expense is required since the Group has no assessable profit for the six months ended 31 December 2018 (2017: Nil).

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

For the Six Months ended 31 December 2018

9. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period is arrived at after charging/(crediting):

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	57	22
Depreciation	(3,148)	(3,359)
Interest income from deposits placed for life insurance policies	–	1,829
	<u>57</u>	<u>1,829</u>

10. DIVIDEND

No dividend was paid or proposed by the Group during the six months ended 31 December 2018 (2017: Nil), nor has any dividend been proposed since the end of the reporting period.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings		
(Loss)/earnings for the purpose of calculating basic		
(loss)/earnings per share	(48,117)	9,221
Fair value gain on convertible notes	–	(1,752)
	<u>–</u>	<u>(1,752)</u>
(Loss)/earnings for the purpose of calculating diluted		
(loss)/earnings per share	(48,117)	7,469
	<u>(48,117)</u>	<u>7,469</u>

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

For the Six Months ended 31 December 2018

11. (LOSS)/EARNINGS PER SHARE (Cont'd)

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares		
used in basic (loss)/earnings per share calculation	1,436,106,716	1,351,640,370
Effect of dilutive potential ordinary shares arising from convertible notes outstanding	–	75,306,185
	<hr/>	<hr/>
Weighted average number of ordinary shares		
used in diluted (loss)/earnings per share calculation	1,436,106,716	1,426,946,555
	<hr/> <hr/>	<hr/> <hr/>

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

Dilutive earnings per share for the six months ended 31 December 2017 did not assume the exercise of share options granted by the Company because the exercise prices of those options were higher than the average market price of the Company.

For the six months ended 31 December 2018, the conversion of the Company's outstanding convertible notes and the effect of all potential ordinary shares arising from share options would be anti-dilutive. Diluted loss per share was the same as the basis loss per share for the six months ended 31 December 2018.

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

For the Six Months ended 31 December 2018

12. INVESTMENT PROPERTIES

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

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

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

Fair value losses (2017: gain) on property revaluation of approximately HK\$7,970,000 (2017: HK\$28,820,000) has been recognised in profit or loss for the six months ended 31 December 2018.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2018, the Group acquired property, plant and equipment of approximately HK\$31,000 (2017: HK\$4,172,000).

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

For the Six Months ended 31 December 2018

14. INTEREST IN AN ASSOCIATE

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Cost of unlisted investment in an associate	15,600	15,600
Share of post-acquisition losses and other comprehensive income	(6,721)	(5,373)
Less: impairment	(7,428)	(7,428)
	<hr/>	<hr/>
	1,451	2,799
	<hr/> <hr/>	<hr/> <hr/>

Details of the Group's associate at 31 December 2018 are as follows:

Name	Place of incorporation and principal place of business	Issued and paid up capital	Percentage of ownership interest	Principal activities
Imagica Technology Incorporation ("Imagica")	Canada	2,001,000 Class A shares of US\$0.01 each and 2,081,633 Class B shares of US\$0.01 each	49%	Research and development

Subsequent to the end of the reporting period, the Group further subscribed 1,000,000 Class A shares of US\$0.01 each in Imagica. Imagica became a 59% owned subsidiary of the Company thereafter.

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

For the Six Months ended 31 December 2018

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Golf club membership (<i>note (a)</i>)	12,450	–
Deposits placed for life insurance policies (<i>note (b)</i>)	40,251	–
	<hr/> 52,701 <hr/>	<hr/> – <hr/>

Notes:

- (a) Golf club membership was previously classified as available-for-sale investment.

During the six months ended 31 December 2018, the fair value loss of approximately HK\$1,142,000 was charged to profit or loss. During the six months ended 31 December 2017, fair value gain of approximately HK\$780,000 was credited to investment revaluation reserve.

- (b) Deposits placed for life insurance policies were previously classified as loans and receivables.

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.

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

For the Six Months ended 31 December 2018

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

Notes: (Cont'd)

(b) (Cont'd)

During the six months ended 31 December 2018, the fair value gain of approximately HK\$605,000 was credited to profit or loss. During the six months ended 31 December 2017, interest income of approximately HK\$1,829,000 was credited to profit or loss.

At the end of the reporting period, the carrying amount of a deposit placed for a life insurance policy which has been pledged as security for the certain bank borrowings, is approximately HK\$17,934,000 (2017: HK\$17,226,000).

16. DUE TO RELATED PARTIES

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Gold Seal Holdings Limited	4,701	6,111
Cityguard Holdings Limited	14,640	18,277
	<u>19,341</u>	<u>24,388</u>

The related parties are immediate shareholders of the Company. The amounts due are unsecured, interest-free and repayable on demand.

17. SECURED BANK BORROWINGS

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Revolving loan	12,691	12,691
Mortgage loans	91,691	93,088
	<u>104,382</u>	<u>105,779</u>

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

For the Six Months ended 31 December 2018

17. SECURED BANK BORROWINGS (Cont'd)

The secured bank borrowings are repayable as follows:

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Repayable on demand	12,691	12,691
Within one year	1,950	2,312
More than one year, but not exceeding two years	2,016	1,978
More than two years, but not more than five years	6,551	6,429
More than five years	81,174	82,369
	<hr/>	<hr/>
	104,382	105,779
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	(89,741)	(90,776)
	<hr/>	<hr/>
	14,641	15,003
Less: Amount due for settlement within 12 months (shown under current liabilities)	(14,641)	(15,003)
	<hr/>	<hr/>
Amount due for settlement after 12 months	-	-
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2018, the secured bank borrowings comprised:

- (i) a revolving loan that carries interest at the rate of 1.35% (30 June 2018: 1.35%) per annum over Hong Kong Interbank Offer Rate ("HIBOR"); and
- (ii) mortgage loans with an outstanding amount of approximately HK\$91,691,000 (30 June 2018: HK\$93,088,000) that shall be repayable by remaining 329 (30 June 2018: 335) monthly instalments and carry interest at a rate of 1.75% (30 June 2018: 1.75%) per annum over HIBOR.

The effective interest rates of the Group's bank borrowings was 2.93% (30 June 2018: 2.49%) per annum.

All bank borrowings are secured by the Group's assets. The details of pledged assets are disclosed in note 22.

18. 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 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.

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

For the Six Months ended 31 December 2018

18. 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.

18. CONVERTIBLE NOTES (Cont'd)

(a) **2017 Convertible Notes** (Cont'd)

(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.

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 liabilities 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 management, which approximate the cash settlement amount as calculated based on the formula as described in section (iii) above. Key inputs are as follows:

	31 December 2018	30 June 2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Share price (per share)	HK\$0.192	HK\$0.241
No. of shares convertible	194,178,331	194,178,331

Change in fair value of approximately HK\$4,077,000 was credited to "other gains/(losses)" in profit or loss during the six months ended 31 December 2018.

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

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

For the Six Months ended 31 December 2018

18. CONVERTIBLE NOTES (Cont'd)

(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.

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 were converted to 16,834,200 ordinary shares.

As at 31 December 2018, the outstanding number of 2014 Convertible Notes is 52,104,172 (30 June 2018: 52,104,172).

19. OTHER BORROWINGS

Other borrowings are unsecured, repayable by instalments from 2021 to 2024 and carry interest at a rate of 1% per annum set by the Finland Finance Ministry.

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

For the Six Months ended 31 December 2018

20. SHARE CAPITAL

	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:			
At 1 July 2017, 30 June 2018, 1 July 2018 and 31 December 2018	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2017 (audited)	0.01	1,342,801,673	13,428
Issue of shares on open offer of 2017 Convertible Notes with share alternative (note 18(a))		77,505,635	775
Issue of shares upon conversion of 2014 Convertible Notes (note 18(b))		16,834,200	168
Cancellation of shares repurchased in prior period (note (a))		(1,065,000)	(10)
At 31 December 2017 (unaudited) and 1 January 2018	0.01	1,436,076,508	14,361
Issue of shares upon conversion of 2017 Convertible Notes (note 18(a))		30,208	–
At 30 June 2018 (audited), 1 July 2018 and 31 December 2018 (unaudited)	0.01	1,436,106,716	14,361

Note:

- (a) The Company cancelled 1,065,000 shares on the Stock Exchange in July 2017 at HK\$0.30 each for an aggregated consideration paid of approximately HK\$321,000.

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

For the Six Months ended 31 December 2018

21. SHARE-BASED PAYMENTS

The Company has adopted a share option scheme to grant share options to eligible employees, including the executive directors of the Company. Details of the share option scheme were disclosed in the Group's consolidated financial statements for the year ended 30 June 2018.

Details of the specific categories of options are as follows:

Date of grant	Exercisable period	Exercise price per share at date of grant HK\$	Adjusted exercise price per share HK\$
30.05.2016	30.05.2016 to 29.05.2026	0.335	0.321
23.06.2017	23.06.2017 to 22.06.2027	0.305	0.296
09.11.2018	09.11.2018 to 08.11.2028	0.179	N/A

Details of the movement of share options during the period are as follows:

	(Unaudited)			
	Six months ended 31 December 2018		2017	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at beginning of period	271,721,900	0.309	261,900,000	0.320
Granted during the period	126,000,000	0.179	–	N/A
Adjustment upon issuance of 2017 Convertible Notes	–	N/A	9,821,900	N/A
Outstanding at end of the period	<u>397,721,900</u>	<u>0.268</u>	<u>271,721,900</u>	<u>0.309</u>
Exercisable at end of period	<u>397,721,900</u>	<u>0.268</u>	<u>271,721,900</u>	<u>0.309</u>

The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 8.55 years (2017: 8.94 years) and the exercise prices range from HK\$0.179 to HK\$0.321 (2017: HK\$0.296 to HK\$0.321).

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

For the Six Months ended 31 December 2018

21. SHARE-BASED PAYMENTS (Cont'd)

The fair value of share options granted during the six months ended 31 December 2018 calculated using the binomial option pricing model is approximately HK\$11,630,000 (2017: HK\$Nil). The inputs into the model are as follows:

Date of grant	9 November 2018
No. of options granted	126,000,000
Share price at date of grant	HK\$0.173
Exercise price	HK\$0.179
Expected volatility	67.59%
Expected life	10 years
Risk-free rate	2.423%
Expected dividend yield	0%
Early exercise multiples	
– Directors	2.8x
– Employees and others	2.2x

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 4 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.

22. PLEDGED OR SECURED ASSETS

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

	31 December 2018 HK\$'000 (Unaudited)	30 June 2018 HK\$'000 (Audited)
Deposit placed for a life insurance policy	17,934	17,670
Leasehold land and buildings	197,171	199,306
	<hr/> 215,105 <hr/>	<hr/> 216,976 <hr/>

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

For the Six Months ended 31 December 2018

23. RELATED PARTY TRANSACTIONS

The Group had the following transactions and balances with its related parties:

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Service fee paid to a related company (note (a))	209	102
Compensation of key management personnel (note (b))	5,238	2,401
	<u> </u>	<u> </u>
	31 December	30 June
	2018	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Due to related parties (note (c))	19,341	24,388
	<u> </u>	<u> </u>

Notes:

(a) One of the directors of the Company and his close family member have beneficial and controlling interests in the related company.

(b) The key management of the Group comprises all executive directors of the Company.

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

(c) Details of amounts due to related parties are set out in note 16.

24. CONTINGENT LIABILITIES

The Group had the following outstanding litigations as at 31 December 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. A bankruptcy order was made against Mike Chen on 20 September 2018. Mike Chen’s claims in this action have been vested in the trustees in bankruptcy (the “Trustees”) accordingly. On 23 January 2019, the Trustees and the Company reached an agreement that this action, including all claims and counterclaims, will be dismissed wholly. The parties will make an application to the Court to give effect to such agreement.
- (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;

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

For the Six Months ended 31 December 2018

24. CONTINGENT LIABILITIES (Cont'd)

(b) (Cont'd)

- (iv) alternatively, the 4th to 8th respondents and their agents/associates be restrained from acting as directors and/or bank signatories of the Company and its subsidiaries until the special committee has completed its review and the recommended remedial actions, if any, are implemented;
- (v) damages (to be assessed), and any interest on those damages, be paid to the petitioner by any of the 2nd to 8th respondents as the Court thinks fit.

The Company is currently seeking legal advice in relation to the petition. A case management conference is held on 18 February 2016. As at the report date, no trial date has yet been set. 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 petition is unlikely to proceed. Accordingly, the Group did not recognise any provision for any possible losses in relation to the case as at 31 December 2018.

25. NEW AND REVISED HKFRSs IN ISSUE BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is not yet effective.

The Group is still assessing the impact of these new or amended standards and there are no significant updates to the information provided in the last annual financial statements about the possible impacts of these new or amended standards.

26. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 February 2019.