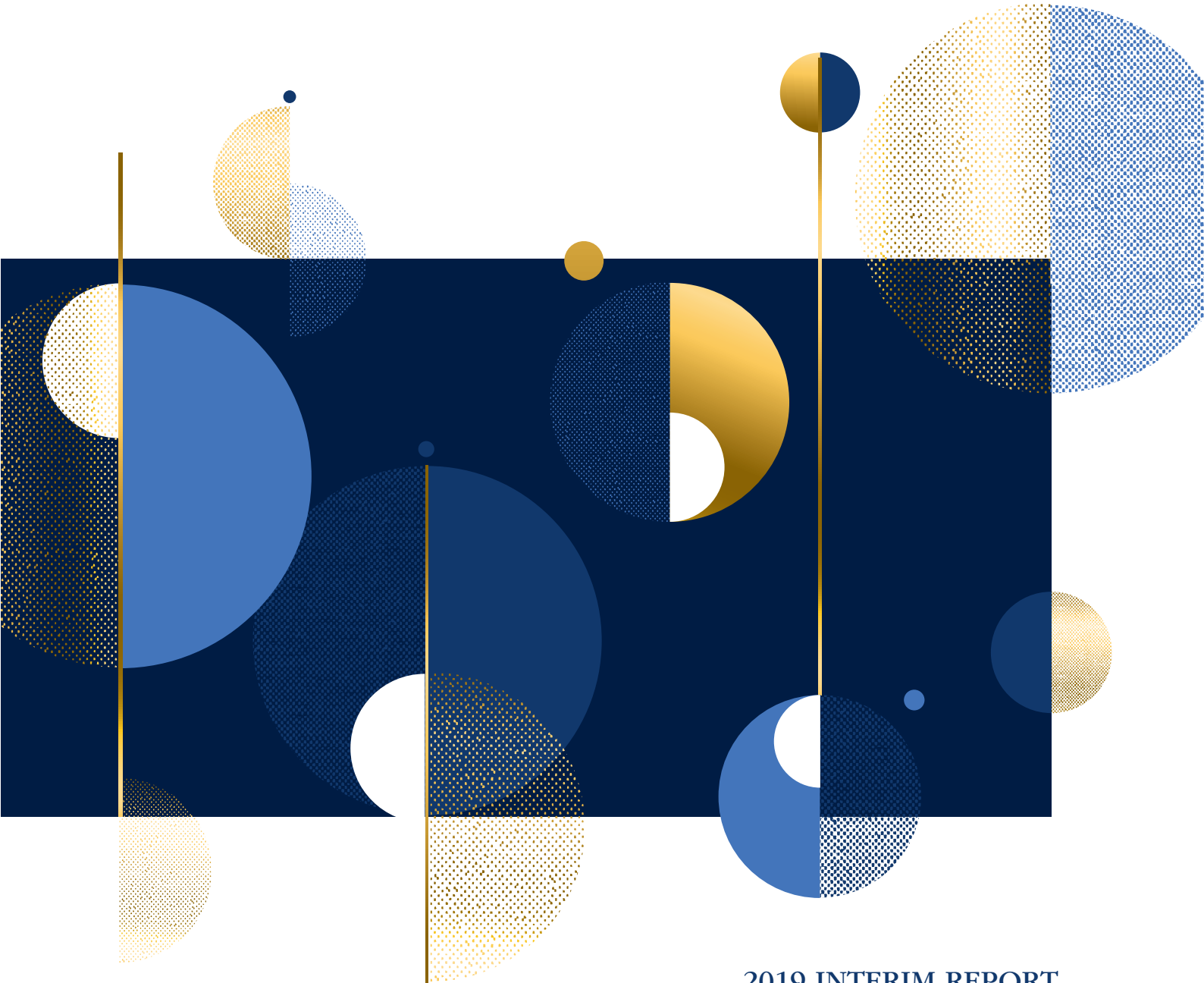


PALADIN LIMITED

(incorporated in Bermuda with limited liability)

Stock Code : 495



2019 INTERIM REPORT

For the six months ended 31 December 2019

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

RSM Hong Kong

PRINCIPAL BANKERS

China CITIC Bank International Limited
Industrial and Commercial Bank of China (Asia)
Limited

SOLICITOR

David Norman & Co.

PRINCIPAL REGISTRAR

Estera Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

REGISTRAR 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

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
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

BUSINESS REVIEW AND PROSPECTS

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

Properties Investment

Turnover of the Group for the six months ended 31 December 2019 under review comprising rental income from its investment properties amounted to approximately HK\$4 million (2018: HK\$4 million).

The Group recorded a loss of approximately HK\$44 million as compared to a loss of approximately HK\$48 million for the corresponding period in 2018.

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

Development of high technology products

Considerable progress has been made during the financial year under review in the Group's development of the next generation technology for a number applications involving imaging, surveillance, navigation and advanced semi-conductor processing. The technology division of the Group now comprises six operations in six countries employing about 85 research and development engineers. To date the Group, together with the Finnish Funding Agency for Technology and Innovation which has matched our investment in our Finnish operations, has invested around HK\$140 million and further substantial investment is anticipated in the coming years. It is expected that sales of a number of technological products or systems developed by the Group will continue or will have commenced sales in the current financial year and we are aiming that by the calendar year 2024 our technology division will be generating sales of US\$100 million.

Each of the subsidiaries or associate of the Company in our technology division is engaged in the following are of technological development:

- Pexray Oy – 75.9% held, based in Espoo, Finland and intends to set up a manufacturing facility in Vietnam in the near future. Pexray Oy is engaged in the development of portable x-ray imaging systems used in inspection devices for security and counter-intelligence applications in such areas on baggage scanning, border control and customs, the detection of explosive devices, forensic investigation and security at large scale sporting and other events.
- Dymim Oy – 70% held, based in Oulu, Finland. This company is developing high dynamic range video cameras and artificial intelligences processors for machine vision applications for use in the health care and agricultural sectors, in devices to improve driver situational awareness and security cameras.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

- Navigs Oy – 70% held, based in Helsinki, Finland. Navigs Oy is engaged in the development of accurate positioning and image sensing technologies to be integrated into semi-automated agricultural vehicles and advanced driver assistance systems in agricultural vehicles to achieve autonomous precision farming, and for application in marine navigation systems.
- Skyin Technology Limited – 70% held, based in Shanghai, the PRC. This company is developing three dimensional machine vision software for three dimensional industrial cameras, artificial intelligence industrial cameras and three dimensional vision software.
- Next Level A.I. Solutions, LLC – 100% held, based in California, the United States of America. Next Level is engaged in the development of ambient display solutions and advanced algorithm and software solutions for use, for example, in advanced driver assistance systems by identifying hazards in poor visibility, collision warning systems and driver awareness systems and for advanced traffic monitoring and control systems.
- Imagica Technology Inc. – 59% held, based in Vancouver, Canada. This company is developing a series of linear image sensors for use in spectroscopy, document scanners and sensors used for a number of security applications.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, net current assets of the Group were approximately HK\$67 million. The current ratio was 1.42. The bank and cash balances were approximately HK\$219 million.

As at 31 December 2019, the Group has outstanding liabilities of approximately HK\$178 million comprising (i) other payables and accruals of approximately HK\$14 million, (ii) amounts due to related parties of approximately HK\$10 million, (iii) bank loans of approximately HK\$102 million and (iv) convertible notes of approximately HK\$31 million and (v) other borrowings and lease liabilities of approximately HK\$20 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\$193 million and a deposit placed for a life insurance policy of approximately HK\$19 million.

The Group's gearing ratio as determined by total debt divided by total assets was approximately 16%.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2019, except for the business combination with respect to Imagica as set out in the note 14, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2019, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group employed a total of 96 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liability.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2019.

DIRECTORS' REPORT

DIRECTOR'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, 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*	Total	Percentage of interest
Oung Shih Hua, James	Beneficial owner	15,724,999	39,772,190	55,497,189	3.87%
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 2019, 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 2019, 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 (<i>Note a</i>)	Interest of a controlled corporation	508,848,531	–	–	508,848,531	35.48%
Cityguard Holdings Limited (<i>Note b</i>)	Beneficial owner	508,848,531	–	–	508,848,531	35.48%
Five Star Investments Limited (<i>Note c</i>)	Interest of a controlled corporation	508,848,531	–	–	508,848,531	35.48%
Gold Seal Holdings Limited (<i>Note d</i>)	Beneficial owner	309,388,211	–	228,605,681	537,993,892	37.51%
Next Level Corporate Limited (<i>Note e</i>)	Other (<i>Note e</i>)	508,848,531	–	–	508,848,531	35.48%
Mr. Oung Da Ming	Beneficial owner	75,000,000	39,772,190	15,000,000	129,772,190	9.05%
	Interest of a controlled corporation (<i>Note a</i>)	508,848,531	–	–	508,848,531	35.48%
	Interest of a controlled corporation (<i>Note d</i>)	309,388,211	–	228,605,681	537,993,892	37.51%
		893,236,742	39,772,190	243,605,681	1,176,614,613	82.04%
Ms. Hsu Ong Hsiao Ling	Beneficial owner	–	39,772,190	–	39,772,190	2.77%
	Interest of a controlled corporation (<i>Note d</i>)	309,388,211	–	228,605,681	537,993,892	37.51%
		309,388,211	39,772,190	228,605,681	577,766,082	40.28%

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 50% by Mr. Oung Da Ming and 50% 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 2019, 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 01.07.2019	Number of Options				Outstanding as at 31.12.2019	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
Substantial shareholders									
Oung Da Ming	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
Hsu Ong Hsiao Ling	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

DIRECTORS' REPORT (Cont'd)

Grantees	Outstanding as at 01.07.2019	Number of Options				Outstanding as at 31.12.2019	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				
Associates of substantial shareholders (note)	41,029,200	-	-	-	-	41,029,200	0.321	30 May 2016	30 May 2016 – 29 May 2026
	40,487,370	-	-	-	-	40,487,370	0.296	23 June 2017	23 June 2017 – 22 June 2027
	37,800,000	-	-	-	-	37,800,000	0.179	9 November 2018	9 November 2018 – 8 November 2028
Employees	27,352,800	-	-	-	-	27,352,800	0.321	30 May 2016	30 May 2016 – 29 May 2026
	26,991,580	-	-	-	-	26,991,580	0.296	23 June 2017	23 June 2017 – 22 June 2027
	25,200,000	-	-	-	-	25,200,000	0.179	9 November 2018	9 November 2018 – 8 November 2028

Note:

Being share options held by Oung Shih How, Zee Alfred and King, Camille V.

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 six months ended 31 December 2019, the Company repurchased 4,960,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of HK\$679,000. Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares.

MAJOR SUPPLIERS AND CUSTOMERS

The Group did not have any purchases and suppliers during the six months ended 31 December 2019. 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.

DIRECTORS' REPORT (Cont'd)

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 2019, 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 2019 <i>HK\$'000</i>	Unused proceeds as at 31 December 2019 <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>	

AUDIT COMMITTEE

The interim results for the six months ended 31 December 2019 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 2019.

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 2019.

By order of the Board
Oung Shih Hua, James
CHAIRMAN

Hong Kong, 28 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2019

		Six months ended	
		31 December	
	NOTE	2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	5	4,341	4,341
Other income		476	57
Other gains and losses	6	(13,719)	(4,430)
Administrative and other operating expenses		(36,621)	(47,965)
		<hr/>	<hr/>
Loss from operations		(45,523)	(47,997)
Finance costs	7	(2,347)	(1,782)
Gain on deemed disposal of an associate	14	3,772	–
Share of losses of an associate		(2,714)	(1,348)
		<hr/>	<hr/>
Loss before tax		(46,812)	(51,127)
Income tax expense	8	–	–
		<hr/>	<hr/>
Loss for the period	9	(46,812)	(51,127)
		<hr/>	<hr/>
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(612)	(1,149)
		<hr/>	<hr/>
Other comprehensive income for the period, net of tax		(612)	(1,149)
		<hr/>	<hr/>
Total comprehensive income for the period		(47,424)	(52,276)
		<hr/> <hr/>	<hr/> <hr/>

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

For the Six Months ended 31 December 2019

	NOTE	Six months ended	
		2019	2018
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Loss for the period attributable to:			
Owners of the Company		(44,075)	(48,117)
Non-controlling interests		(2,737)	(3,010)
		<u>(46,812)</u>	<u>(51,127)</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		(44,491)	(49,028)
Non-controlling interests		(2,933)	(3,248)
		<u>(47,424)</u>	<u>(52,276)</u>
Loss per share			
Basic (HK cents per share)	11	<u>(3.06)</u>	<u>(3.35)</u>
Diluted (HK cents per share)		<u>(3.06)</u>	<u>(3.35)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		31 December 2019 <i>HK\$'000</i> (Unaudited)	30 June 2019 <i>HK\$'000</i> (Audited)
	<i>NOTE</i>		
Non-current assets			
Investment properties	12	647,300	657,100
Property, plant and equipment	13	202,176	205,160
Right-of-use assets		3,581	–
Goodwill	23	2,179	–
Intangible assets	23	2,991	–
Interest in an associate	14	–	4,398
Financial assets at fair value through profit or loss ("FVTPL")	15	50,140	52,143
		<hr/>	<hr/>
Total non-current assets		908,367	918,801
		<hr/>	<hr/>
Current assets			
Inventories – raw materials		2,471	1,993
Other receivables, deposits and prepayments		6,054	4,476
Bank and cash balances		218,721	250,714
		<hr/>	<hr/>
Total current assets		227,246	257,183
		<hr/>	<hr/>
Current liabilities			
Other payables and accruals		14,123	13,245
Due to related parties	16	10,198	14,824
Lease liabilities		2,036	–
Secured bank borrowings	17	102,324	103,457
Convertible notes	18	30,649	28,733
Current tax liabilities		298	298
		<hr/>	<hr/>
Total current liabilities		159,628	160,557
		<hr/>	<hr/>
Net current assets		67,618	96,626
		<hr/>	<hr/>
Total assets less current liabilities		975,985	1,015,427
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

At 31 December 2019

		31 December 2019 <i>HK\$'000</i> (Unaudited)	30 June 2019 <i>HK\$'000</i> (Audited)
	<i>NOTE</i>		
Non-current liabilities			
Other borrowings	19	16,324	12,430
Lease liabilities		1,687	–
Deferred tax liabilities		808	–
		<hr/>	<hr/>
Total non-current liabilities		18,819	12,430
		<hr/>	<hr/>
NET ASSETS		957,166	1,002,997
		<hr/> <hr/>	<hr/> <hr/>
CAPITAL AND RESERVES			
Share capital	20	14,343	14,387
Reserves		953,012	998,144
		<hr/>	<hr/>
Equity attributable to owners of the Company		967,355	1,012,531
Non-controlling interests		(10,189)	(9,534)
		<hr/>	<hr/>
TOTAL EQUITY		957,166	1,002,997
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2019

	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 2018 (audited)	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
	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Treasury shares HK\$'000	Other reserve HK\$'000	Translation 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 2019 (audited)	14,387	193,951	-	21,766	(1,301)	9,722	58,312	715,694	1,012,531	(9,534)	1,002,997
Repurchase of shares	-	-	(679)	-	-	-	-	-	(679)	-	(679)
Transaction cost attributable to repurchase of shares	-	(6)	-	-	-	-	-	-	(6)	-	(6)
Cancellation of shares	(44)	(562)	606	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(416)	-	-	(44,075)	(44,491)	(2,933)	(47,424)
Business combination (note 23)	-	-	-	-	-	-	-	-	-	2,278	2,278
Changes in equity for the period	(44)	(568)	(73)	-	(416)	-	-	(44,075)	(45,176)	(655)	(45,831)
At 31 December 2019 (unaudited)	14,343	193,383	(73)	21,766	(1,717)	9,722	58,312	671,619	967,355	(10,189)	957,166

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months ended 31 December 2019

	Note	Six months ended 31 December	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
NET CASH USED IN OPERATING ACTIVITIES		(30,097)	(30,896)
Bank interest received		50	57
Business combination	23	4,118	–
Purchases of property, plant and equipment		(138)	(31)
NET CASH GENERATED FROM INVESTING ACTIVITIES		4,030	26
Repayment to related parties		(4,626)	(5,047)
Repayment of bank borrowings		(1,133)	(1,397)
Other borrowings raised		4,076	5,320
Principal elements of lease payments		(779)	–
Repurchase of shares		(679)	–
Transaction costs attributable to repurchase of shares		(6)	–
Interest paid		(1,996)	(1,782)
Capital contribution from a non-controlling shareholder of a subsidiary		–	90
NET CASH USED IN FINANCING ACTIVITIES		(5,143)	(2,816)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(31,210)	(33,686)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		250,714	332,127
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(783)	(1,136)
CASH AND CASH EQUIVALENTS AT END OF PERIOD, REPRESENTED BY		218,721	297,305
Bank and cash balances		218,721	297,305

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months ended 31 December 2019

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, 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 2019 annual consolidated financial statements. The accounting policies (including the key sources of estimation uncertainty) 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 2019 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 2019. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted HKFRS 16 Leases from 1 July 2019. A number of other new standards are effective from 1 July 2019 but they do not have a material effect on the Group’s consolidated financial statements.

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) Interpretation 4 Determining whether an Arrangement contains a Lease, Hong Kong (SIC) Interpretation 15 Operating Leases – Incentives and Hong Kong (SIC) Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 July 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 July 2019. For contracts entered into before 1 July 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases (Cont'd)

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant Group entities at the date of initial application. The incremental borrowing rates applied by the relevant Group entities range from 14% to 21.6%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 30 June 2020;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iii) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to an impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases (Cont'd)

(b) Lessee accounting and transitional impact (Cont'd)

The following table reconciles the operating lease commitments as at 30 June 2019 to the opening balance for lease liabilities recognised as at 1 July 2019:

	<i>HK\$'000</i> (Unaudited)
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	7,475
Less: commitments relating to lease exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 30 June 2020	<u>(1,714)</u>
	5,761
Less: total future interest expense	<u>(1,252)</u>
	4,509
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019 and lease liabilities recognised as at 1 July 2019	<u><u>4,509</u></u>
Of which are:	
Current lease liabilities	2,206
Non-current lease liabilities	<u>2,303</u>
	<u><u>4,509</u></u>

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 30 June 2019.

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases (Cont'd)

(b) Lessee accounting and transitional impact (Cont'd)

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's condensed consolidated statement of financial position:

Line items in the condensed consolidated statement of financial position impacted by the adoption of HKFRS 16	NOTE	(Unaudited)			Carrying amount as at 1 July 2019 HK\$'000
		Effects of adoption of HKFRS 16			
		Carrying amount as at 30 June 2019 HK\$'000	Re-classification HK\$'000	Recognition of leases HK\$'000	
Assets					
Right-of-use assets		–	132	4,509	4,641
Other receivables, deposits and prepayments	(i)	6,054	(132)	–	5,922
Liabilities					
Lease liabilities		–	–	(4,509)	(4,509)

Note (i): Upon application of HKFRS 16, the prepayments amounting to approximately HK\$132,000 were classified to right-of-use assets.

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

HKFRS 16 Leases (Cont'd)

(c) *Impact of the financial results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 July 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There was no material impact on the reported loss from operations in the Group's condensed consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the period.

In the condensed consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the condensed consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial results and cash flows for the six months ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in the six months ended 31 December 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases (Cont'd)

(c) Impact of the financial results and cash flows of the Group (Cont'd)

	(Unaudited)				
	Six months ended 31 December 2019			2018	
			Deduct:		
		Add back:	Estimated		
		HKFRS 16	amounts	Hypothetical	Compared
Financial results for the six months ended 31 December 2019 impacted by the adoption of HKFRS 16:	Amounts reported under HKFRS 16 HK\$'000	depreciation and interest expense HK\$'000	related to operating leases as if under HKAS 17 (note 1) HK\$'000	amounts for 2019 as if under HKAS 17 HK\$'000	to amounts reported for 2018 under HKAS 17 HK\$'000
Loss from operations	(45,523)	1,053	(1,130)	(45,600)	(47,997)
Finance costs	(2,347)	351	–	(1,996)	(1,782)
Loss before tax	(46,812)	1,404	(1,130)	(46,538)	(51,127)
Loss for the period	(46,812)	1,404	(1,130)	(46,538)	(51,127)

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

For the Six Months ended 31 December 2019

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

HKFRS 16 Leases (Cont'd)

(c) Impact of the financial results and cash flows of the Group (Cont'd)

Line items in the condensed consolidated statement cash flows for the six months ended 31 December 2019 impacted by the adoption of HKFRS 16:	Amounts reported under HKFRS 16 HK\$'000	(Unaudited)		
		Six months ended 31 December 2019		2018
		Estimated amounts related to operating leases as if under HKAS 17 (notes 1& 2) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Cash used in operations	(29,746)	(1,130)	(30,876)	(30,896)
Interest element of lease rentals paid	(351)	351	-	-
Net cash used in operating activities	(30,097)	(779)	(30,876)	(30,896)
Capital element of lease rentals paid	(779)	779	-	-
Net cash used in financing activities	(5,143)	779	(4,364)	(2,816)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash used in operating activities and net cash used in financing activities as if HKAS 17 still applied.

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

For the Six Months ended 31 December 2019

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 2019

4. FAIR VALUE MEASUREMENTS (Cont'd)

(a) Disclosures of level in fair value hierarchy at 31 December 2019:

Description	(Unaudited)			Total HK\$'000
	Fair value measurements as at 31 December 2019 using:			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Financial assets at FVTPL				
– Golf club membership	–	–	8,584	8,584
– Deposits placed for life insurance policies	–	41,556	–	41,556
	–	41,556	8,584	50,140
Investment properties				
– Tenant occupied office premises/car parks located in Hong Kong	–	–	321,800	321,800
– Vacant office premises/car parks located in Hong Kong	–	–	325,500	325,500
	–	–	647,300	647,300
Total	–	41,556	655,884	697,440
Financial liabilities				
– 2017 Convertible Notes	–	30,649	–	30,649

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

For the Six Months ended 31 December 2019

4. FAIR VALUE MEASUREMENTS (Cont'd)

(a) Disclosures of level in fair value hierarchy at 31 December 2019: (Cont'd)

Description	(Audited)			Total HK\$'000
	Fair value measurements as at 30 June 2019 using:			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurements:				
Financial assets at FVTPL				
– Golf club membership	–	–	11,272	11,272
– Deposits placed for life insurance policies	–	40,871	–	40,871
	–	40,871	11,272	52,143
Investment properties				
– Tenant occupied office premises/car parks located in Hong Kong				
	–	–	326,600	326,600
– Vacant office premises/car parks located in Hong Kong				
	–	–	330,500	330,500
	–	–	657,100	657,100
Total	–	40,871	668,372	709,243
Financial liabilities				
– 2017 Convertible Notes	–	28,733	–	28,733

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

For the Six Months ended 31 December 2019

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	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At beginning of period	11,272	13,592	657,100	642,170
Total losses recognised				
– in profit or loss	(2,688)	(1,142)	(9,800)	(7,970)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	8,584	12,450	647,300	634,200
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The total losses recognised in profit or loss including those for assets held at end of reporting period are presented in other gain and 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 2019

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 2019:

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 golf club membership	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\$27,254 to HK\$28,401 (30 June 2019: HK\$27,634 to HK\$28,795) 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\$27,254 to HK\$28,401 (30 June 2019: HK\$27,634 to HK\$28,795) per sq. ft. on saleable area basis	Increase

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

For the Six Months ended 31 December 2019

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 2019: (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	Discounted cash flows	Expected cash flows are estimated based on 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, gain on deemed disposal of an associate, fair value changes of convertible notes and financial assets at FVTPL, 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 2019

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 2019:			
Revenue from external customers	4,341	–	4,341
Segment loss	(11,495)	(25,380)	(36,875)
Unallocated expenses			(13,755)
Unallocated income			3,818
Consolidated loss before tax			(46,812)
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
Consolidated loss before tax			(51,127)

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

For the Six Months ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION (Cont'd)

Information about operating segment assets and liabilities is not provided to the Chief Executive Officer, being the chief operating decision maker, therefore, segment assets and liabilities are not presented.

Reconciliation of segment loss from operations:

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total loss of reportable segments	(36,875)	(29,017)
Share of losses of an associate	(2,714)	(1,348)
Unallocated amounts:		
Other income	46	57
Other gains and losses	(3,919)	3,540
Administrative and other operating expenses	(7,006)	(24,359)
Finance costs	(116)	–
Gain on deemed disposal on associate	3,772	–
	<hr/>	<hr/>
Consolidated loss before tax	(46,812)	(51,127)
	<hr/> <hr/>	<hr/> <hr/>

No geographical information is presented as the Group's revenue is primarily derived from its business activities in Hong Kong and the Group's non-current assets (other than goodwill, intangible assets, interest in an associate and certain right-of-use assets) are mainly located in Hong Kong.

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

For the Six Months ended 31 December 2019

6. OTHER GAINS AND LOSSES

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value losses on investment properties (note 12)	(9,800)	(7,970)
Fair value losses on financial assets at FVTPL (note 15)	(2,003)	(537)
Fair value (losses)/gains on convertible notes (note 18(a))	(1,916)	4,077
	<u>(13,719)</u>	<u>(4,430)</u>

7. FINANCE COSTS

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest expense on lease liabilities	351	–
Interest on bank borrowings	1,933	1,750
Interest on other borrowings	42	16
Interest on bank overdrafts	21	16
	<u>2,347</u>	<u>1,782</u>

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

For the Six Months ended 31 December 2019

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 2019 (2018: Nil).

9. LOSS FOR THE PERIOD

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

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	(50)	(57)
Depreciation of property, plant and equipment	3,270	3,148
Depreciation of right-of-use assets	1,053	–
	<u> </u>	<u> </u>

10. DIVIDEND

No dividend was paid or proposed by the Group during the six months ended 31 December 2019 (2018: Nil), nor has any dividend been proposed since the end of the reporting period.

11. LOSS PER SHARE

Basis loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately HK\$44,075,000 (2018: HK\$48,117,000) and the weighted average number of ordinary shares of 1,438,242,223 (2018: 1,436,106,716) in issue during the year.

For the six months ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculating basic loss per share has taken into account the ordinary shares repurchased from market during the period and subsequently cancelled in December 2019.

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

For the Six Months ended 31 December 2019

11. LOSS PER SHARE (Cont'd)

Diluted loss per share

For the six months ended 31 December 2019, the conversion of the Company's outstanding convertible notes would be anti-dilutive and there were no dilutive potential ordinary shares arising from share options 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 2019 and 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 on property revaluation of approximately HK\$9,800,000 (2018: HK\$7,970,000) has been recognised in profit or loss for the six months ended 31 December 2019.

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2019, the Group acquired property, plant and equipment of approximately HK\$138,000 (2018: HK\$31,000).

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

For the Six Months ended 31 December 2019

14. INTEREST IN AN ASSOCIATE

	31 December 2019 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Audited)
Unlisted investment:		
Share of net assets	–	4,398

Details of the Group's associates at 30 June 2019 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	3,001,000 Class A shares of USD0.01 each and 2,081,633 Class B shares of USD0.01 cash	59%	Research and development

Pursuant to a modification agreement ("Modification Agreement") dated 31 December 2019 entered into between General Resources Group Limited ("General Resources"), a wholly-owned subsidiary of the Company which holds 59% of the issued share capital of Imagica, and a non-controlling shareholder (holds 41% of the issued share capital of Imagica), the number of directors of Imagica nominated by General Resources was increased from 2 to 3 out of 5 directors.

In the opinion of the directors of the Company, the Group obtained control in Imagica by virtue of the Modification Agreement, and as a result, Imagica ceased to be an associate of the Group on 31 December 2019 and became and was accounted for as a subsidiary of the Company effective from that date. The Group's interests in Imagica were re-measured based on the fair value of the shares of Imagica held by the Group on 31 December 2019. Accordingly, a gain on deemed disposal of approximately HK\$3,772,000 was recognised in profit or loss during the six months ended 31 December 2019.

The fair value of Imagica has been arrived at on the basis of a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent qualified professional valuer which is not connected to the Group.

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

For the Six Months ended 31 December 2019

15. FINANCIAL ASSETS AT FVTPL

	31 December 2019 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Audited)
Golf club membership (note (a))	8,584	11,272
Deposits placed for life insurance policies (note (b))	41,556	40,871
	50,140	52,143

Notes:

(a) Golf club membership

During the six months ended 31 December 2019, the fair value loss of approximately HK\$2,688,000 (2018: HK\$1,142,000) was charged to profit or loss.

(b) 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.

During the six months ended 31 December 2019, the fair value gain of approximately HK\$685,000 (2018: HK\$605,000) 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 pledged as security for certain bank borrowings amounted to approximately HK\$18,544,000 (30 June 2019: HK\$18,215,000).

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

For the Six Months ended 31 December 2019

16. DUE TO RELATED PARTIES

	31 December 2019 <i>HK\$'000</i> (Unaudited)	30 June 2019 <i>HK\$'000</i> (Audited)
Gold Seal Holdings Limited	3,381	3,841
Cityguard Holdings Limited	6,806	10,669
Oung Da Ming	11	314
	<hr/> 10,198 <hr/>	<hr/> 14,824 <hr/>

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 2019 <i>HK\$'000</i> (Unaudited)	30 June 2019 <i>HK\$'000</i> (Audited)
Revolving loan	12,691	12,691
Mortgage loans	89,633	90,766
	<hr/> 102,324 <hr/>	<hr/> 103,457 <hr/>

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

For the Six Months ended 31 December 2019

17. SECURED BANK BORROWINGS (Cont'd)

The secured bank borrowings are repayable as follows:

	31 December 2019 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Audited)
Within one year	14,501	14,507
More than one year, but not exceeding two years	1,903	1,905
More than two years, but not more than five years	6,236	6,218
More than five years	79,684	80,827
	<hr/> 102,324	<hr/> 103,457
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	(87,823)	(88,950)
	<hr/> 14,501	<hr/> 14,507
Less: Amount due for settlement within 12 months (shown under current liabilities)	(14,501)	(14,507)
	<hr/> –	<hr/> –
Amount due for settlement after 12 months	<hr/> –	<hr/> –

At 31 December 2019, the secured bank borrowings are comprised of:

- (i) a revolving loan that carries interest at the rate of 1.35% (30 June 2019: 1.35%) per annum over Hong Kong Interbank Offer Rate (“HIBOR”); and
- (ii) mortgage loans with an outstanding amount of approximately HK\$89,633,000 (30 June 2019: HK\$90,766,000) that shall be repayable by remaining 317 (30 June 2019: 323) monthly instalments and carries interest at a rate of 1.75% (30 June 2019: 1.75%) per annum over HIBOR.

At 31 December 2019, the weighted average interest rate of the Group’s bank borrowings was 3.98% (30 June 2019: 3.73%) 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 2019

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.

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

For the Six Months ended 31 December 2019

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 2019 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Audited)
Share price (per share)	HK\$0.160	HK\$0.150
No. of shares convertible	191,557,498	191,557,498

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

For the Six Months ended 31 December 2019

18. CONVERTIBLE NOTES (Cont'd)

(a) 2017 Convertible Notes (Cont'd)

Change in fair value of approximately HK\$1,916,000 (2018: HK\$4,077,000) was charged (2018: credited) to “other gains and losses” in profit or loss during the six months ended 31 December 2019.

During the year ended 30 June 2019, a total of 2,620,833 Convertible Notes with an amount of HK\$655,208 were converted to 2,620,833 ordinary shares.

(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.

As at 31 December 2019, the outstanding number of 2014 Convertible Notes is 52,104,172 (30 June 2019: 52,104,172).

19. OTHER BORROWINGS

Other borrowings are unsecured, repayable by instalments from 2021 to 2025 (30 June 2019: 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 2019

20. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 July 2018, 30 June 2019 and 31 December 2019	50,000,000,000	500,000
Issued and fully paid:		
At 1 July 2018 (audited), 31 December 2018 (unaudited) and 1 January 2019	1,436,106,716	14,361
Issue of shares upon conversion of 2017 Convertible Notes (note 18(a))	2,620,833	26
At 30 June 2019 (audited) and 1 July 2019	1,438,727,549	14,387
Cancellation of shares repurchased in current period (note)	(4,465,000)	(44)
At 31 December 2019 (unaudited)	1,434,262,549	14,343

Note:

During the six months ended 31 December 2019, the Company repurchased 4,960,000 ordinary shares through the Stock Exchange at a total consideration of approximately HK\$679,000, of which 4,465,000 ordinary shares were cancelled in December 2019.

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

For the Six Months ended 31 December 2019

21. SHARE-BASED PAYMENTS

The Company has adopted a share option scheme to grant share options to eligible participants, 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 2019.

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 2019		2018	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at beginning of period	397,721,900	0.268	271,721,900	0.309
Granted during the period	–	N/a	126,000,000	0.179
Outstanding at end of period	397,721,900	0.268	397,721,900	0.268
Exercisable at end of period	397,721,900	0.268	397,721,900	0.268

The options outstanding at the end of the reporting period have a weighted average remaining contractual life of 7.55 years (30 June 2019: 8.06 years) and the exercise prices range from HK\$0.179 to HK\$0.321 (30 June 2019: HK\$0.179 to HK\$0.321).

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

For the Six Months ended 31 December 2019

21. SHARE-BASED PAYMENTS (Cont'd)

No share options were granted during the six months ended 31 December 2019. The fair value of share options granted during the six months ended 31 December 2018 calculated using the binomial option pricing model was approximately HK\$11,630,000. The inputs into the model are as follows:

Date of grant	9 November 2018
No. of options granted	
– Directors	37,800,000
– Employees and others	88,200,000
Share price at grant date	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 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 OF ASSETS

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

	31 December 2019 HK\$'000 (Unaudited)	30 June 2019 HK\$'000 (Audited)
Deposit placed for a life insurance policy	18,544	18,215
Leasehold land and buildings	192,900	195,035
	<u>211,444</u>	<u>213,250</u>

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

For the Six Months ended 31 December 2019

23. BUSINESS COMBINATION

As referred to in note 14, Imagica ceased to be an associate of the Company and it has been accounted for as a subsidiary of the Group since 31 December 2019.

The above business combination has been accounted for using the acquisition method. Imagica is engaged in the research and development of image sensors.

The fair value of the identifiable assets and liabilities of Imagica acquired as at the date of business combination is as follows:

	Acquiree's carrying amount before combination <i>HK\$'000</i>	Fair value adjustments <i>HK\$'000</i>	Fair value <i>HK\$'000</i>
Net assets acquired:			
Property, plant and equipment	159	–	159
Intangible assets	–	2,991	2,991
Other receivables	300	–	300
Bank and cash balances	4,118	–	4,118
Trade and other payables	(1,205)	–	(1,205)
Deferred tax liabilities	–	(808)	(808)
	<u>3,372</u>	<u>2,183</u>	
Net assets			5,555
Non-controlling interests			(2,278)
Goodwill			<u>2,179</u>
Total consideration			<u>5,456</u>
Total consideration, satisfied by:			
Fair value of 59% interests in Imagica			<u>5,456</u>
Net cash inflow arising on business combination:			
Cash and cash equivalents acquired			<u>4,118</u>

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

For the Six Months ended 31 December 2019

23. BUSINESS COMBINATION (Cont'd)

The goodwill arising on the business combination of Imagica is attributable to the anticipated future operating synergies from the combination.

Imagica contributed no revenue and result for the six months ended 31 December 2019 to the Group's revenue and loss for the period respectively for the period between the date of business combination and the end of the reporting period.

If the business combination had been completed on 1 July 2019, total Group's revenue for the period would have been unchanged, and loss for the period would have been approximately HK\$51,412,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the business combination been completed on 1 July 2019, nor is intended to be a projection of future results.

24. RELATED PARTY TRANSACTIONS

The Group had the following transactions with its related parties during the period:

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Service fee paid to a related company (<i>note (a)</i>)	236	209
Compensation of key management personnel (<i>note (b)</i>)	2,519	5,238
	<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 are comprised of the directors of the Company.

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.

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

For the Six Months ended 31 December 2019

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 2019 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 interim financial statements were approved and authorised for issue by the Board of Directors on 28 February 2020.