

PALADIN LIMITED

(incorporated in Bermuda with limited liability)
Stock Code : 495 and 642 (Preference Shares)



INTERIM
REPORT **2015**

For the six months ended 31 December 2015

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Oung Shih Hua, James (*Chairman*)

Non-executive Director:

Chan Chi Ho

Yuen Chi Wah

Independent Non-executive Directors:

Au Chik Lam Alexander

Huang Weizong Martin

Liu Man Kin Dickson

COMPANY SECRETARY

Chan Chi Ho

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

China CITIC Bank International Limited

SOLICITORS

Gall

David Norman & Co.

PRINCIPAL REGISTRARS

Appleby Management (Bermuda) Limited

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL OFFICE

Suite 2304, 23rd Floor, Sun Life Tower,

The Gateway,

Harbour City,

Tsim Sha Tsui,

Kowloon,

Hong Kong

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

AUDIT COMMITTEE

Liu Man Kin Dickson (*Chairman*)

Au Chik Lam Alexander

Chan Chi Ho

Huang Weizong Martin

NOMINATION COMMITTEE

Oung Shih Hua, James (*Chairman*)

Liu Man Kin Dickson

Au Chik Lam Alexander

Huang Weizong Martin

REMUNERATION COMMITTEE

Liu Man Kin Dickson (*Chairman*)

Au Chik Lam Alexander

Oung Shih Hua, James

Huang Weizong Martin

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activity of the Group is property investment.

BUSINESS REVIEW AND PROSPECTS

Peak Road Property and AXA Properties

On 17 June 2015, the Group entered into a sale and purchase agreement to sell certain subsidiaries of the Group of which are the registered and beneficial owners of the Peak Road Property for a consideration of HK\$1,825 million. The transaction was completed on 20 October 2015 and The Group has recognised a net gain of approximately HK\$895 million.

On 10 July 2015, the Company entered into a provisional sale and purchase agreement to purchase 2 companies which have the rights to acquire 20th, 21st Floors and 7 car parking spaces of AXA Centre, 151 Gloucester Road, Hong Kong (the “AXA Properties”). The aggregate consideration for acquisition of companies and the AXA Properties was approximately HK\$498 million. The transaction was completed on 20 October 2015.

The Group has, for some time, been seeking to realise value in respect of the Peak Road Property located, as it is, in a prime position on the Peak, Hong Kong. In particular, the Group considered and rejected notions of refurbishing or renovating the Peak Road Property, given the Group’s assessment of the substantial additional costs required for either such project, the uncertainty of raising additional finance to pursue the same, and the risks of a property market in a weaker state at the time of completing such a project.

The Peak Road Property required material capital expenditure in the absence of which the Peak Road Property and its value may deteriorate. Since the Group did not have readily available resources to undertake its share of funding such capital expenditure, the Group decided to dispose of its interests in the Peak Road Property and reworked its property portfolio to properties more manageable and better suited to its current financial position. The board of directors (the “Board”) was of the view that the AXA Properties could generate stable rental income for the Group and accordingly, fitted with the Group’s financial position and goals.

Cluny Properties

On 7 December 2015, the Group entered into a preliminary sale and purchase agreement in relation to the acquisition of 2 properties and 2 car parks located at Cluny Park, 53 Conduit Road, Hong Kong, (the “Cluny Properties”) for an aggregate consideration of HK\$195,000,000. The Group expected that completion of the acquisition will take place on or before 31 March 2016.

The Group intends to hold the Cluny Properties for investment purposes and will lease out the Cluny Properties after the completion of the acquisition for rental income and will hold it for capital appreciation purposes. The Group will consider to sell the Cluny Properties for capital gains depending on future market circumstances. The Board believe that the acquisition will broaden the property portfolio and income base of the Group.

Research and development

Sensors Integration Technology Limited, a wholly-owned subsidiary of the Group, has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. It only generated a revenue of approximately HK\$0.4 million for the six months ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2015, net current assets of the Group were approximately HK\$435 million. The current ratio was 4.93. The bank balances and cash were approximately HK\$536 million.

As at 31 December 2015, the Group has outstanding liabilities of approximately HK\$127 million comprising (i) other payables and accrued charges of approximately HK\$96 million, (ii) amounts due to related parties of approximately HK\$15 million and (iii) convertible redeemable preference shares of approximately HK\$16 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 pledge against foreign exchange risk.

No bank borrowings were recorded as of 31 December 2015. The Group's gearing ratio as determined by bank borrowing divided by total equity was nil.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

For the six months ended 31 December 2015, the Group has entered into a sale and purchase agreement to sell certain subsidiaries of the Group of which are the registered and beneficial owners of the Peak Road Property and has entered into a provisional sale and purchase agreement to purchase 2 companies which have the rights to acquire the AXA Properties. Both transactions were completed in October 2015.

For the six months ended 31 December 2015, the Group has entered into a preliminary sale and purchase agreement to acquire the Cluny Properties and the transaction is expected to be completed on or before 31 March 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed a total of 15 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2015, there were contingent liabilities in respect of certain legal proceedings against the Company. The aggregate amount of claims was approximately HK\$2 million at the end of the reporting period.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2015.

DIRECTOR REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2015, the interests and short positions of the directors and chief executives of the Company 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 Companies (the “Model Code”) were as follows:

Ordinary shares of HK\$0.01 each of the Company (long position):

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued ordinary shares
Oung Shih Hua, James	Beneficial owner	10,500,000	0.79%

Convertible redeemable preference shares of HK\$0.01 each of the Company (long position):

Name of director	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares
Oung Shih Hua, James	Beneficial owner	2,500,000	3.52%

Save as disclosed above, as at 31 December 2015, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTOR REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the persons (other than the directors of the Company) who had interests and short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long position:

Ordinary Shares of HK\$0.01 each of the Company

Name of Shareholder	Capacity	Number of issued Ordinary Shares held	Percentage of issued Ordinary Shares held
Basurto Holdings Limited <i>(Note a)</i>	Interest of a controlled corporation	508,848,531	38.05%
Cityguard Holdings Limited <i>(Note b)</i>	Beneficial owner	508,848,531	38.05%
Five Star Investments Limited <i>(Note c)</i>	Interest of a controlled corporation	508,848,531	38.05%
Gold Seal Holdings Limited <i>(Note d)</i>	Beneficial owner	158,358,941	11.84%
Next Level Corporate Limited <i>(Note e)</i>	Other <i>(Note e)</i>	508,848,531	38.05%
	Beneficial owner	150,000,000	11.22%
		658,848,531	49.27%
Mr. Oung Da Ming	Beneficial owner	75,000,000	5.61%
	Interest of a controlled corporation <i>(Note a)</i>	508,848,531	38.05%
	Interest of a controlled corporation <i>(Note d)</i>	158,358,941	11.84%
		742,207,472	55.50%

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

Name of Shareholder	Capacity	Number of issued Preference shares held	Percentage of issued Preference shares held
Goldenfield Equities Limited <i>(Note f)</i>	Beneficial owner	9,099,014	12.81%

DIRECTOR REPORT

Convertible Note issued by the Company:

Name of noteholder	Date of issue	Conversion period	Conversion price per share <i>HK\$</i>	Outstanding as at the Latest Practicable Date	Number of underlying shares	Approximate percentage of the issued convertible notes	Percentage of issued Ordinary Shares
Next Level Corporate Limited (<i>Note e</i>)	24 November, 2014	24 November, 2014 to 23 November, 2024	0.25	50,000,000	50,000,000	74.79%	14.95%

Notes:

- (a) Basurto Holdings Limited is held by Mr. Oung Da Ming on trust for the estate of his deceased mother, Ms. Oung Chin Liang Fung (as to 67%) and his sister, Ms. Lilian Oung (as to 33%).
- (b) Cityguard Holdings Limited, is a wholly-owned subsidiary of Five Star Investments Limited.
- (c) Five Star Investments Limited is directly and 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.
- (d) Gold Seal Holdings Limited is solely owned by Mr. Oung Da Ming.
- (e) Next Level Corporate Limited is owned as 25% by Mr. Oung Da Ming, 25% by his son, Mr. Oung Shih How, 25% by Dr. Oung Shih Hua, James, and 25% by Anglo Chinese Nominees, Limited which holds its shares in Next Level Corporate Limited as bare trustee for Basurto Holdings Limited. Next Level Corporate Limited is the owner of equity derivatives relating to Ordinary Shares and a chargee of Ordinary Shares.
- (f) Goldenfield Equities Limited is owned as to 40% by Ms. Lilian Oung, 40% by her son Mr. Chen Te Kuang, Mike, and 20% by Dr. Oung Shih Hua, James.

Other than as disclosed above, as at 31 December 2015, 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 OPTION SCHEME

The Company adopted a share option scheme (the "Option Scheme") on 8 December 2015. No share options had been granted under the Option Scheme since its adoption.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

DIRECTOR REPORT

AUDIT COMMITTEE

The interim results for the six months ended 31 December 2015 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 2015.

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 and special 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.

DIRECTOR REPORT

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors of the Company and the directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 31 December 2015.

By order of the Board

Oung Shih Hua, James

CHAIRMAN

Hong Kong, 29 February 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months ended 31 December 2015

	NOTES	Six months ended 31 December	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Turnover		3,222	–
Other income		1,777	2,361
Administrative expenses		(15,241)	(29,955)
Loss on investment properties	9	(44,200)	6,500
Gain on disposal of subsidiaries	16	895,348	–
Finance costs	4	(4,938)	(9,082)
Provision for litigations		–	(2,690)
		<hr/>	<hr/>
Profit (loss) for the period	6	835,968	(32,866)
		<hr/>	<hr/>
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange difference arising on translation		1,785	3,460
Fair value gain (loss) on available-for-sale investments		1,632	(1,343)
		<hr/>	<hr/>
Other comprehensive income for the period		3,417	2,117
		<hr/>	<hr/>
Total comprehensive income (expenses) for the period		839,385	(30,749)
		<hr/>	<hr/>
Earnings (loss) per share	7		
Basic		67.0 HK cents	(3.44) HK cents
		<hr/>	<hr/>
Diluted		60.3 HK cents	(3.44) HK cents
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	<i>NOTES</i>	31.12.2015 HK\$'000 (Unaudited)	30.6.2015 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties	9	474,840	–
Property, plant and equipment	10	34	59
Available-for-sale investments		11,320	9,688
Deposit placed for a life insurance policy	11	20,913	20,902
Deposits paid for acquisition of investment properties		55,588	–
		<hr/> 562,695 <hr/>	<hr/> 30,649 <hr/>
Current assets			
Other receivables, deposits and prepayments		9,894	16,041
Bank balances and cash		535,716	52,340
		<hr/> 545,610 <hr/>	<hr/> 68,381 <hr/>
Assets classified as held for sale		–	975,304
		<hr/> 545,610 <hr/>	<hr/> 1,043,685 <hr/>
Current liabilities			
Other payables and accrued charges		95,801	99,775
Amounts due to related parties	12	14,963	18,176
Bank overdrafts		–	76
		<hr/> 110,764 <hr/>	<hr/> 118,027 <hr/>
Liabilities associated with assets classified as held for sale		–	798,838
		<hr/> 110,764 <hr/>	<hr/> 916,865 <hr/>
Net current assets		<hr/> 434,846 <hr/>	<hr/> 126,820 <hr/>
		<hr/> 997,541 <hr/>	<hr/> 157,469 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	31.12.2015 HK\$'000 (Unaudited)	30.6.2015 HK\$'000 (Audited)
Capital and reserves			
Share capital	13	13,374	10,954
Reserves		968,556	131,591
		<hr/>	<hr/>
		981,930	142,545
		<hr/>	<hr/>
Non-current liabilities			
Convertible redeemable preference shares	14	15,611	14,924
		<hr/>	<hr/>
		997,541	157,469
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months ended 31 December 2015

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Convertible notes reserve HK\$'000 (Note 15)	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 July 2015 (audited)	10,954	111,274	6,286	21,766	(2,761)	2,188	74,447	(81,609)	142,545
Profit for the period	-	-	-	-	-	-	-	835,968	835,968
Other comprehensive income for the period	-	-	-	-	1,785	1,632	-	-	3,417
Total comprehensive income for the period	-	-	-	-	1,785	1,632	-	835,968	839,385
Issue of shares upon conversion of convertible notes	2,420	58,097	-	-	-	-	(60,517)	-	-
At 31 December 2015 (unaudited)	<u>13,374</u>	<u>169,371</u>	<u>6,286</u>	<u>21,766</u>	<u>(976)</u>	<u>3,820</u>	<u>13,930</u>	<u>754,359</u>	<u>981,930</u>
At 1 July 2014 (audited)	9,359	74,441	6,316	21,766	(5,111)	5,400	-	39,104	151,275
Loss for the period	-	-	-	-	-	-	-	(32,866)	(32,866)
Other comprehensive income (expense) for the period	-	-	-	-	3,460	(1,343)	-	-	2,117
Total comprehensive income (expense) for the period	-	-	-	-	3,460	(1,343)	-	(32,866)	(30,749)
Issue of shares on conversion of redeemable preference shares	2	48	(20)	-	-	-	-	-	30
Open offer of shares (note 13)	1,591	38,178	-	-	-	-	-	-	39,769
Transaction costs attributable to open offer of shares	-	(1,434)	-	-	-	-	-	-	(1,434)
Open offer of convertible notes (note 15)	-	-	-	-	-	-	77,247	-	77,247
Transaction costs attributable to open offer of convertible notes	-	-	-	-	-	-	(2,784)	-	(2,784)
At 31 December 2014 (unaudited)	<u>10,952</u>	<u>111,233</u>	<u>6,296</u>	<u>21,766</u>	<u>(1,651)</u>	<u>4,057</u>	<u>74,463</u>	<u>6,238</u>	<u>233,354</u>

Notes:

- (a) The capital reserve represents the equity component of convertible redeemable preference shares.
- (b) The other reserve represents the amount transferred from liability component of convertible redeemable preference shares upon the alteration of the terms of the existing convertible redeemable preferences shares during the year ended 30 June 2008.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months ended 31 December 2015

	Six months ended 31 December	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(19,810)	(28,782)
Investing activities		
Interest received	534	36
Increase in pledged bank deposits	(4)	(5)
Acquisition of subsidiaries	(516,441)	–
Proceeds from disposal of subsidiaries	1,036,696	–
Deposits paid for acquisition of investment properties	(55,588)	–
Withdrawal of pledged bank deposits	50,585	–
Repayment from a director	–	1,821
Purchase of property, plant and equipment	–	(42)
Net cash from investing activities	515,786	1,810
Financing activities		
Bank borrowing raised	61,959	32,000
Advance from a shareholder	(3,213)	19,410
Repayment of bank borrowings	(15,353)	(23,462)
Interest paid	(4,251)	(8,280)
Proceeds from open offer of convertible notes	–	77,247
Proceeds from open offer of shares	–	39,769
Transaction costs attributable to open offer of convertible notes	–	(2,784)
Transaction costs attributable to open offer of shares	–	(1,434)
Net cash from financing activities	39,142	132,466
Net increase in cash and cash equivalents	535,118	105,494
Cash and cash equivalents at beginning of the period	(1,193)	(18,969)
Effect of foreign exchange rate changes	1,791	3,340
Cash and cash equivalents at end of period	535,716	89,865
Cash and cash equivalents at end of the period, represented by		
Bank balances and cash	535,716	148,531
Bank overdrafts	–	(58,666)
	535,716	89,865

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2015

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2015.

3. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision maker, the Chairman of the Company, for the purpose of allocating resources to the segments and to assess their performances.

During the interim period ended 31 December 2015, in order to more accurately reflect the current business activities and business model of the Group, the internal organisation structure and reporting was changed such that property development and property investment activities are no longer separately assessed or reviewed. Instead, the information reviewed by the chief operating decision maker as at the end of the reporting period analyses the performance of the property business as a whole. Accordingly, it is determined that the Group now has one operating segment. The operating results and other financial information of this operating segment that are regularly reviewed by the chief operating decision maker have been prepared in accordance with accounting policies as disclosed in note 3 that are regularly reviewed by the directors of the Company.

As the segment information for the comparative period have to be restated whenever the composition of reportable segments changes during a reporting period, the segment information presented in the preceding year or period’s published accounts of the Group are not presented in this interim report as comparative information.

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

For the six months ended 31 December 2015

4. FINANCE COSTS

	Six months ended	
	31 December	
	2015	2014
	HK\$'000	HK\$'000
Interest on bank borrowings:		
– wholly repayable within five years	1,088	2,233
– not wholly repayable within five years	3,163	6,047
Interest on convertible redeemable preference shares	687	802
	<u>4,938</u>	<u>9,082</u>

5. TAXATION

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

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended	
	31 December	
	2015	2014
	HK\$'000	HK\$'000
Profit (loss) for the period has been arrived at after (charging) crediting:		
Depreciation	(19)	(19)
Loss on disposal of property, plant and equipment	(337)	–
Interest income	534	36
	<u>534</u>	<u>36</u>

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

For the six months ended 31 December 2015

7. EARNINGS (LOSS) PER SHARE

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

	Six months ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
<i>Earnings (loss):</i>		
Earnings (loss) for the purpose of basic earnings (loss) per share	835,968	(32,866)
Effect of dilutive potential shares:		
Interest on convertible redeemable preference shares (net of income tax)	687	N/A (note)
Earnings for the purposes of diluted earnings per share	<u>836,655</u>	<u>N/A (note)</u>

	Six months ended 31 December	
	2015	2014
	HK\$'000	HK\$'000
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,248,507,081	956,581,913
Effect of dilutive potential ordinary shares for the purposes of diluted earnings per share	<u>137,887,740</u>	<u>N/A (note)</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,386,394,821</u>	<u>N/A (note)</u>

Note: The calculation of diluted loss per share for the six months period ended 31 December 2014 had not been disclosed as the exercise of the Company's outstanding convertible redeemable preference shares and convertible notes would reduce the loss per share for that period.

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

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

For the six months ended 31 December 2015

9. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 31 December 2015 was HK\$474,840,000. During the six months ended 31 December 2015, the Group acquired investment properties for a purchase consideration of HK\$497,543,000, which resulted from the acquisition of Acme Elite Limited ("Acme") and Afar Success Limited ("Afar"). In addition, directly attributable costs of HK\$21,497,000 representing mainly stamp duties, were incurred. Major assets of Acme and Afar are land and building situated in Hong Kong under medium-term leases and do not have any operation, which did not constitute a business combination in accordance with HKFRS 3 "Business combinations". As such, the acquisition has been accounted for acquisition of assets and liabilities through acquisition of subsidiaries.

The fair value has been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, an independent valuer which is not connected to the Group and whose address is 17th Floor, Champion Building, 287-291 Des Voeux Road Central, Hong Kong. The fair value of the investment properties was arrived by using direct comparison method based on market observable transactions of similar properties in the similar conditions and locations of the subject properties and adjusted to reflect the conditions of the subject properties including property size and property floor level. In estimating the fair value of the properties, the highest and best use of the properties is their current use. The resulting loss on investment properties of HK\$44,200,000 has been recognised directly in profit or loss for the six months ended 31 December 2015 (2014: increase in fair value of HK\$6,500,000).

10. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of HK\$19,000 (1.7.2014 to 31.12.2014: HK\$19,000) were charged in respect of the Group's property, plant and equipment. No addition to property, plant and equipment during the current interim period (1.7.2014 to 31.12.2014: HK\$42,000).

11. DEPOSIT PLACED FOR A LIFE INSURANCE POLICY

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 and changed to Master Era Limited ("Master Era") during the current interim period, and the total insured sum is US\$10,000,000 (approximately HK\$78,000,000). Master Era is required to pay an upfront deposit of US\$2,806,000 (approximately HK\$21,887,000) including a premium charge at inception of the policy amounting to US\$168,000 (approximately HK\$1,310,000). Master Era can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront payment of US\$2,806,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value"). In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge. The insurance Company will pay Master Era an interest of 4.65% per annum on the outstanding Cash Value of the policy for the first year. Commencing on the 2nd year, the interest will become 2% per annum plus a premium determined by the insurance company on an annual basis.

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

For the six months ended 31 December 2015

12. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, non-interest bearing and repayable on demand. An amount of HK\$88,000 (30.6.2015: HK\$150,000) represents amount due to Oung Da Ming, who is the former director of the Group's major subsidiaries. The remaining amount of HK\$14,875,000 (30.6.2015: HK\$18,026,000) represents amount due to Gold Seal Holdings Limited, which is a shareholder of the Company.

13. SHARE CAPITAL

	Nominal value per share HK\$	Numbers of shares	Amount HK\$'000
Authorised:			
At 1 July 2014, 30 June 2015 and 31 December 2015	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2014	0.01	935,924,489	9,359
Issue of shares on conversion of convertible redeemable preference shares		314,583	3
Issue of shares on conversion of convertible notes		62,085	1
Open offer of shares (<i>note 15</i>)		159,076,343	1,591
At 30 June 2015	0.01	1,095,377,500	10,954
Issue of shares on conversion of convertible notes		242,069,605	2,420
At 31 December 2015	0.01	1,337,447,105	13,374

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

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

For the six months ended 31 December 2015

14. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK\$'000
Authorised:		
At 1 July 2014, 30 June 2015 and 31 December 2015	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2014	71,343,529	713
Conversion of issued convertible redeemable preference shares into ordinary shares	(310,000)	(3)
At 30 June 2015 and 31 December 2015	71,033,529	710

The convertible redeemable preference shares with nominal value of HK\$0.01 were issued at HK\$0.25 per share on 24 November 2006.

Movement of the convertible redeemable preference shares are as follows:

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 July 2014	13,339	6,316	19,655
Conversion of convertible redeemable preference shares	(47)	(30)	(77)
Interest charged for the year	1,632	–	1,632
At 30 June 2015	14,924	6,286	21,210
Interest charged for the period (<i>note 4</i>)	687	–	687
At 31 December 2015	15,611	6,286	21,897

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

For the six months ended 31 December 2015

14. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Note: As announced by the Company on 3 July 2007, the alternation of the terms of the existing convertible redeemable preference shares has been duly approved by the holders of convertible redeemable preference shares at the special general meeting held on 3 July 2007. The approved alternation of the terms of the existing convertible redeemable preference shares are summarised as follows:

(i) Cumulative dividend

The right to receive a dividend per convertible redeemable preference share is based on the dividend or any other distribution (if any) per ordinary share declared and paid by Sensors Integration Technology Limited (“SIT”), a wholly-owned subsidiary of the Company. SIT is an investment holding company with its subsidiaries principally engaged in manufacture of optical sensor systems and optical communication products.

SIT will declare a dividend to its shareholders only if SIT has received written confirmation from the Company that the Company is permitted to declare and pay a dividend in the same amount to the holders of the convertible redeemable preference shares and an undertaking to declare and pay such a dividend.

(ii) Further issues

New issues of convertible redeemable preference shares shall be permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in SIT and at the same price.

(iii) Early redemption at the option of the Company

The Company has the option, but not the obligation, to redeem all but not a portion of the convertible redeemable preference shares at face value if there are less than 80 million convertible redeemable preference shares in issue.

14. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

(iv) Conversion rights

Holders of the convertible redeemable preference shares are entitled to convert all or any of their convertible redeemable preference shares into ordinary shares in the Company by paying HK\$0.24 per share to the Company for entitling one ordinary share of the Company of HK\$0.01 each, subject to anti-dilutive adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain changes in share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Holders of the convertible redeemable preference shares are not required to pay any extra amount should they convert their convertible redeemable preference shares into ordinary shares in the Company.

(v) Redemption

A holder of the convertible redeemable preference shares may by notice in writing to the Company requires the Company to redeem all or any of the outstanding convertible redeemable preference shares, whereupon subject to the requirements of the Bermuda Companies Act. The Company shall pay to such holder a redemption amount equal to the aggregate initial subscription price of such number of convertible redeemable preference shares so redeemed together with the cumulative dividend that has accrued and payable upon the occurrence of any of the following (whichever is the earliest):

- (a) 31 December 2016;
- (b) any consolidation, amalgamation or merger of the Company with any other corporation;
- (c) listing of the ordinary shares of the Company are revoked or withdrawn (except in connection with the simultaneous listing of the ordinary shares on such other internationally recognised stock exchange);
- (d) a directors' resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company; or
- (e) an effective resolution is passed for the winding-up, insolvency, administration, reorganisation, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company.

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

For the six months ended 31 December 2015

14. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

(vi) Priority

The convertible redeemable preference shares rank in priority to the ordinary shares in the Company as to dividends and a return of the capital paid up on the convertible redeemable preference shares. Once the capital paid up has been returned and all the accumulative dividends has been paid, the convertible redeemable preference shares are not entitled to any further payment from or distributions by the Company.

(vii) Voting

The convertible redeemable preference shares do not entitle the holders to attend or vote at meeting of the Company except on resolutions which directly affect their rights or on a winding up of the Company or a return or repayment of capital.

(viii) Further issues

New issues of convertible redeemable preference shares has been permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in SIT and at the same price.

The net proceeds received from the issue of the convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial instruments: Presentation":

- (i) Debt component represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

The interest charged for the period is calculated by applying effective interest rate of 9.13% per annum of the debt component for the period since the alternation of the terms of the convertible redeemable preference shares on 3 July 2007.

- (ii) Equity component represents the difference between the proceeds of issue of the convertible redeemable preference shares and the fair value assigned to the liability component.

15. CONVERTIBLE NOTES

On 26 September 2014, the Company announced a proposed open offer of unsecured zero coupon participating convertible notes due 2024 in denominations of HK\$0.25 principal amount each, to be issued at face value, on the basis of assured allotments of one convertible note, with the share alternative of one new ordinary share at an open offer of HK\$0.25, for every two existing ordinary shares held. In November 2014, the Company issued an aggregate of 275,934,673 convertible notes and 41,236,560 ordinary shares in assured allotments for which valid applications were received. In December 2014, the Company issued a further 33,051,228 convertible notes and 117,839,783 ordinary shares for which valid applications were received on excess application forms. In total 308,985,901 unsecured zero coupon participating convertible notes and 159,076,343 ordinary shares (see note 13) were issued in the open offer.

The convertible notes bear no interest and mature on 23 November 2024. The convertible notes are convertible into ordinary shares of the Company at the option of the noteholders at any time from the issue date up to the close of business on the tenth last day preceding the maturity date at an initial conversion price of HK\$0.25 each, subject to anti-dilutive adjustments. The convertible notes are denominated in Hong Kong dollars. Please refer to the Company's offering document dated 29 October 2014 for the details of the terms of the convertible notes. Below is a summary of principal terms of convertible notes.

(i) Distributions

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

(ii) Cash settlement option

Notwithstanding the conversion right of each noteholder in respect of each convertible note, at any time when the delivery of shares deliverable upon conversion of notes is required to satisfy the conversion right, the Company has the option to settle the conversion option in cash at the cash settlement amount (as defined below). If and to the extent that the issue of new ordinary shares upon conversion of the convertible notes will cause the public float of the ordinary shares to fall below the minimum prescribed percentage required under the Listing Rules, the Company shall pay to the relevant noteholder an amount of cash equal to the cash settlement amount in order to satisfy such conversion right.

The cash settlement amount is the product of (i) the number of ordinary shares otherwise deliverable upon exercise of the conversion right in respect of those convertible notes for which the Company has elected the cash settlement option and (ii) the arithmetic average of the volume weighted average price of the ordinary shares for each business day during the five business days last preceding the date of the relevant notice of conversion.

15. CONVERTIBLE NOTES (Cont'd)

(iii) Redemption at the option of the Company

At any time after issue and prior to the day that is five business days prior to the maturity date, the Company may redeem all the convertible notes at the early redemption amount (as defined below).

The early redemption amount is the product of (i) the number of ordinary shares deliverable upon exercise of the conversion rights in respect of those convertible notes then outstanding and (ii) the arithmetic average of the volume weighted average price of the ordinary shares for each business day during the sixty business days ending on date of the notice from the Company electing to redeem all the convertible notes on the redemption date specified therein.

(iv) Automatic conversion on maturity

On the maturity date, all then outstanding convertible notes will automatically be converted into ordinary shares. Notwithstanding the automatic conversion of all outstanding convertible notes on the maturity date, in the event that automatic conversion of all outstanding convertible notes on the maturity date will cause the public float of the ordinary shares to fall below the minimum prescribed percentage required under the Listing Rules, the Company will have an option to redeem the convertible notes by paying to the relevant noteholders an amount of cash at the redemption amount (as defined below).

The redemption amount is the product of (i) the number of ordinary shares deliverable upon exercise of the conversion rights in respect of the convertible notes then outstanding and (ii) HK\$0.25.

The requirement of the Company to settle in cash arises only in the event of a breach of the public float requirement under the Listing Rules which is considered by the directors of the Company to be very unlikely to occur based on an assessment made at initial recognition of the convertible notes on the current and potential shareholdings of the Company.

These convertible notes will be automatically converted into a fixed number of ordinary shares of the Company at maturity (subject to anti-dilutive adjustments).

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

For the six months ended 31 December 2015

15. CONVERTIBLE NOTES (Cont'd)

With regard to the conversion option exercisable by the noteholders, at any time from issue date up to the close of business on the tenth last day preceding the maturity date of the convertible notes, the Company will be issuing a fixed number of the Company's ordinary shares (subject to anti-dilutive adjustments) upon such conversion.

As for the early redemption option and the cash settlement option (upon exercise of conversion right by the noteholders), both of which are exercisable at the Company's option, the Company has no contractual obligation to deliver cash or another financial asset to the noteholders, or to exchange financial assets and liabilities under conditions that are potentially unfavourable to the Company.

Accordingly, the entire convertible notes were classified as an equity instrument of the Company upon initial recognition and the gross proceeds received of approximately HK\$77,247,000 had been recognised in equity in convertible notes reserve. Transaction costs of approximately HK\$2,784,000 were charged to convertible notes reserve immediately.

16. DISPOSAL OF SUBSIDIARIES

On 17 June 2015, the Company (as the vendor) entered into a sales and purchase agreement ("Peak Road SPA") with an independent third party, Equal Force Limited ("Equal Force", as the purchaser), for the disposal of the entire issued share capital in Paladin Leisure Limited, Gainbest Venture Limited, Perfect Place Limited, Bowen Hill Limited, Oasis Trade Global Limited, Petersham Limited, Holyrood Limited, Alpard Limited, Venus Fortune Limited, Wayguard Limited and World Modern International Limited (the "Disposal Group"), for a consideration of HK\$1,825,000,000, subject to adjustment. Please refer to the Company's circular dated 25 August 2015 for the details. The Peak Road SPA was completed on 20 October 2015.

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

For the six months ended 31 December 2015

16. DISPOSAL OF SUBSIDIARIES (Cont'd)

Assets and liabilities of the Disposal Group on the date of disposal:

	<i>HK\$'000</i>
Net assets disposed of:	
Investment properties	198,000
Property, plant and equipment	291
Properties held for sale	710,408
Other receivables	11,226
Bank balances and cash	6,765
Other payables	(30,643)
Bank overdrafts	(20,000)
Secured bank borrowings	(727,934)
Amount due to a group company	(1,148,172)
	<hr/>
	(1,000,059)
Sales loan waived	1,148,172
Bank borrowings settled by Equal Force	747,934
Transaction and other direct costs incurred	33,605
Gain on disposal	895,348
	<hr/>
	1,825,000
	<hr/> <hr/>
Satisfied by:	
Cash consideration received during the period	1,043,461
Transaction and other direct costs incurred	33,605
Bank borrowings settled by Equal Force	747,934
	<hr/>
	1,825,000
	<hr/> <hr/>
Net cash inflows arising on disposal:	
Cash consideration received	1,043,461
Less: Bank balances and cash disposed of	(6,765)
	<hr/>
	1,036,696
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17. CONTINGENT LIABILITIES

The Group is the defendant of the following legal cases as at 31 December 2015, in which the directors are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained:

- (a) On 28 October 2014, 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 in which the Company undertook to repay and HK\$2,000,000, being an alleged loan made to the Company, and (ii) interest. On 27 January 2015, the Company filed a Defence and Counterclaim. The Company’s counterclaim is for Mike Chen’s breach of trust and/or his fiduciary duties owed to the Company. The Company claims, amongst others, for a sum of HK\$410,447 against Mike Chen. On 23 March 2015, Mike Chen filed his Reply and Defence to Counterclaim. The litigation is still ongoing and there is no further update on the case up to the report date.
- (b) On 14 November 2014, a petition under section 724 of the Companies Ordinance was served on the Company, as first respondent, and Cityguard Holdings Limited, Five Star Investments Limited, Gold Seal Holdings Limited, Mr. Oung Da Ming, Dr. Oung Shih Hua, James, Mr. Yuen Chi Wah and Mr. Chan Chi Ho as second to eighth respondents. The petition was filed by Mr. Mike Chen (as petitioner), a former Director who was removed from office 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 Investments Limited 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 Mr. Oung Da Ming, Margaret Uon, Five Star Investments Limited, 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;

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

For the six months ended 31 December 2015

17. CONTINGENT LIABILITIES (Cont'd)

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

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

Based on the legal advice obtained by the Group, the Board is of the opinion that the remaining cases are ongoing and the Group is unable to evaluate the likely outcome of the actions. Accordingly, no provision is considered necessary.

18. CAPITAL COMMITMENTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Capital expenditure contracted but not provided for in the condensed consolidated financial statements in respect of acquisition of investment properties	<u>185,250</u>	<u>–</u>

19. PLEDGE OR SECURED ASSETS

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

	31.12.2015 <i>HK\$'000</i>	30.6.2015 <i>HK\$'000</i>
Properties held for sale	–	694,603
Investment properties	–	198,000
Deposit placed for a life insurance policy	–	20,902
Bank deposits	–	50,585
	<u>–</u>	<u>964,090</u>

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

For the six months ended 31 December 2015

20. OPERATING LEASES

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

The Group as lessor

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	16,421	–
In the second year	4,105	–
	<hr/>	<hr/>
	20,526	–
	<hr/> <hr/>	<hr/> <hr/>

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

The Group as lessee

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	1,413	1,499
In the second year	304	1,477
	<hr/>	<hr/>
	1,717	2,976
	<hr/> <hr/>	<hr/> <hr/>

Operating lease payments represent rentals payable by the Group for certain of its office properties, leases are negotiated for a term of 2 to 5 years.

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

For the six months ended 31 December 2015

21. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties to the Group under the definition of HKAS 24 "Related Party Disclosures".

- (a) Lilian Oung, a director of certain subsidiaries and also one of the shareholders of Five Star, has provided personal guarantees in respect of the following:

	31.12.2015 HK\$'000	30.6.2015 <i>HK\$'000</i>
Credit facilities granted to the Group	–	157,550

- (b) Uon Margaret, a director of certain subsidiaries and also one of the shareholders of Gold Seal, a shareholder of the Company, has provided personal guarantees in respect of the following:

	31.12.2015 HK\$'000	30.6.2015 <i>HK\$'000</i>
Credit facilities granted to the Group	–	320,000

- (c) Oung Shih Hua, James, a director of the Company, has provided personal guarantees in respect of the following:

	31.12.2015 HK\$'000	30.6.2015 <i>HK\$'000</i>
Credit facilities granted to the Group	–	120,000

- (d) During the six months ended 31 December 2015, an amount of HK\$682,000 (2014: nil) is paid to a related company in which one of the directors of the Company and his close family member have beneficial and controlling interests.

- (e) Details of the amounts due to related parties is set out in note 12.