

Deloitte.

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TO THE SHAREHOLDERS OF PALADIN LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Paladin Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) from pages 19 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company’s directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures in note 2 to the consolidated financial statements. As explained in note 38 to the consolidated financial statements, since the year end the Group has refinanced three mortgage loans in the aggregate principal amount of HK\$155,100,000. Provided that the Group raises approximately HK\$66,000,000 being the planned proceeds from an open offer of 264,135,807 convertible redeemable preference shares at the subscription price of HK\$0.25 per share and provided that the Group can continue to successfully refinance or to obtain sufficient bank and other borrowings, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The consolidated financial statements do not include any adjustments that would result from failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the consolidated financial statements and our opinion is not qualified in this respect.

Fundamental uncertainty relating to litigation

In forming our opinion, we have considered the adequacy of the disclosures made in the note 33(i) to the consolidated financial statements concerning the possible outcome of arbitration proceedings involving Holyrood Limited, a wholly-owned subsidiary of the Company, in connection with a claim by Hip Hing Construction Limited against Holyrood Limited for approximately HK\$59 million in relation to a dispute on construction work performed by Hip Hing Construction Limited in relation to the redevelopment project at the Peak Road. Although provision has been made for approximately HK\$16 million in relation to construction cost, Holyrood Limited is now preparing a claim against Hip Hing Construction Limited for defective works, rectification costs and damages for an amount to be determined. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the consolidated financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the consolidated financial statements give a true and fair value of the state of affairs of the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.