

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2006**

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

PALADIN LIMITED

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ³
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁴
HK(IFRIC) – INT 12	Service Concession Arrangements ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 November 2006

⁴ Effective for annual periods beginning on or after 1 March 2007

⁵ Effective for annual periods beginning on or after 1 January 2008

3. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two main operating divisions – (i) general trading (i.e. textiles) and (ii) property development and investment. These divisions are the bases on which the Group reports its primarily segment information.

Segment information about these businesses is presented below:

Six months ended 31 December 2006

	General trading	Property development and investment	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER			
External sales	–	48,298	48,298
RESULT			
Segment result	(6,218)	57,122	50,904
Loss arising from change in fair value of option derivatives	–	–	(1,110)
Finance costs			(26,828)
Profit for the period			22,966

PALADIN LIMITED

Six months ended 31 December 2005

	General trading <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External sales	2,144	–	2,144
	<u>2,144</u>	<u>–</u>	<u>2,144</u>
RESULT			
Segment result	(9,373)	(24,086)	(33,459)
Finance costs			(18,303)
			<u>(18,303)</u>
Loss for the period			<u>(51,762)</u>

More than 90% of the Group's turnover for the six months ended 31 December 2006 and 2005 was attributable to the operations carried out in Hong Kong.

4. FINANCE COSTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank borrowings:		
– wholly repayable within five years	1,393	18,303
– not wholly repayable within five years	22,608	–
Interest on convertible redeemable preference shares (note 16)	739	–
Other borrowing costs	2,088	–
	<u>26,828</u>	<u>18,303</u>

5. TAXATION

No provision for Hong Kong Profit Tax has been made in the current period condensed consolidated financial statements as the estimated profit for the period is wholly absorbed by the tax losses brought forward.

No provision for Hong Kong Profits Tax had been made in the previous period condensed consolidated financial statements as the Group had no assessable profit for that period.

PALADIN LIMITED

6. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	31 December	
	2006	2005
	HK\$'000	HK\$'000
Earnings (loss) for the period for the purpose of calculating basic earnings (loss) per share	22,966	(51,762)
<i>Effect of dilutive potential ordinary shares:</i>		
Add: Interest on convertible redeemable preference shares charged to condensed consolidated income statement	739	
Earnings for the purpose of calculating diluted earnings per share	23,705	
Number of shares	2006	2005
Number of shares for the purposes of calculating basic earnings (loss) per share	528,271,615	528,271,615
Effect of dilutive potential ordinary shares relating to convertible redeemable preference shares	54,549,786	
Weighted average number of shares for the purpose of calculating diluted earnings per share	582,821,401	

7. DIVIDEND

No dividends were paid by the Company in both periods. The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2006.

8. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 31 December 2006 has been arrived at on the basis of a valuation carried out on that day by Messrs. Savills Valuation And Professional Services Limited, independent qualified professional property valuers not connected with the Group. Messrs. Savills Valuation And Professional Services Limited are members of the Hong Kong Institute of Surveyors, and have appropriate qualification. The valuation, which conforms to The Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

During the six months ended 31 December 2006, the gain arising on change in fair value of the investment properties of approximately HK\$46,393,000 (1.7.2005 to 31.12.2005: nil) has been recognised in the condensed consolidated income statement. In addition, a property of approximately HK\$31,307,000 (1.7.2005 to 31.12.2005: nil) previously classified as properties held for sale has been reclassified as investment properties during the period.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$2,396,000 (1.7.2005 to 31.12.2005: HK\$2,290,000) were charged in respect of the Group's property, plant and equipment. The additions of property, plant and equipment for the period amounted to approximately HK\$1,787,000 (1.7.2005 to 31.12.2005: HK\$120,000).

10. PROPERTIES HELD FOR SALE

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of properties held for sales	888,447	948,525

At 31 December 2006 and 30 June 2006, the properties held for sale are stated at cost.

11. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amounts are due to directors of subsidiaries including Lilian Oung, one of the shareholders of Five Star Investments Limited (“Five Star”), the controlling shareholder of the Company. The amounts are unsecured, non-interest bearing and repayment on demand.

The directors of the Company considered that the fair value of amounts due to directors of subsidiaries at 31 December 2006 and 30 June 2006 was approximate to the corresponding carrying amount.

12. SECURED BANK BORROWINGS

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage loans	916,157	629,136
Bank loan	–	142,911
	<hr/>	<hr/>
	916,157	772,047
Less: Amount due within one year shown under current liabilities	(19,720)	(154,965)
	<hr/>	<hr/>
Amount due after one year	896,437	617,082
	<hr/> <hr/>	<hr/> <hr/>

At the balance sheet date, the Group’s bank borrowings are repayable as follows:

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	19,720	154,965
In more than one year but not more than two years	22,679	14,031
In more than two years but not more than three years	22,679	14,031
In more than three years but not more than four years	22,679	14,031
In more than four years but not more than five years	22,679	14,031
Over five years	805,721	560,958
	<hr/>	<hr/>
	916,157	772,047
	<hr/> <hr/>	<hr/> <hr/>

The bank loan was secured by a first legal charge over the Group's properties held for sale (the "Property") and a floating charge over all assets of Holyrood Limited ("Holyrood"), a wholly-owned subsidiary of the Company. Deposits, rental proceeds and sales proceeds regarding the Property were also assigned to the banks. The bank loan was at variable-rate and the effective interest rate was at HIBOR plus 1.75% to 3.5% per annum. During the six months ended 31 December 2006, the outstanding bank loan was repaid in full.

At 30 June 2006, the mortgage loans were comprised of (i) a mortgage loan with a principal amount of HK\$80,000,000 that shall be repayable by 240 monthly instalments with an effective interest rate of 2% per annum below the Hong Kong dollars Prime Rate and (ii) a mortgage loan with a principal amount of HK\$550,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.35% per annum below the Hong Kong dollars Prime Rate.

During the six months ended 31 December 2006, the Group obtained six new mortgage loans from certain banks in an aggregate principal amount of HK\$294,400,000 to settle in full the outstanding bank loan. The new mortgage loans were comprised of (i) a mortgage loan with a principal amount of HK\$30,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.65% per annum below the Hong Kong dollars Prime Rate; (ii) a mortgage loan with a principal amount of HK\$32,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (iii) a mortgage loan with a principal amount of HK\$70,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.6% per annum below the Hong Kong dollars Prime Rate; (iv) a mortgage loan with a principal amount of HK\$69,300,000 that shall be repayable by 240 monthly instalments with an effective interest rate of 1.25% per annum above HIBOR; (v) a mortgage loan with a principal amount of HK\$61,100,000 that shall be repayable by 240 monthly instalments with an effective interest rate of 1.25% per annum above HIBOR; and (vi) a mortgage loan with a principle amount of HK\$32,000,000 that shall be repayable by 300 monthly instalments with an effective interest rate of 2.5% per annum below the Hong Kong dollars Prime Rate.

All mortgage loans are secured by certain apartments of the Property and investment properties of the Group to the banks.

The fair value of the Group's bank borrowings was approximate to the corresponding carrying amount calculated by discounting the future cash flows at the prevailing market rate for similar borrowings at the balance sheet dates. The Group's bank borrowings are all denominated in Hong Kong dollars.

PALADIN LIMITED

13. OTHER LOANS

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other loans from:		
– related companies (<i>note a</i>)	4,758	183,323
– an unrelated companies (<i>note b</i>)	34,739	34,739
– an unrelated company (<i>note c</i>)	94,013	91,459
	<hr/>	<hr/>
	133,510	309,521
Less: Amount due within one year shown under current liabilities	(65,596)	(239,577)
	<hr/>	<hr/>
Amount due after one year	<u>67,914</u>	<u>69,944</u>

Notes:

- (a) The loans are owed to companies in which Lilian Oung and/or Messrs. Oung Shih Hua, James and Chen Te Kuang Mike, directors of the Company, have controlling interests. The loans are unsecured, non-interest bearing and repayable on demand.
- (b) The loans are unsecured, non-interest bearing and repayable on demand.
- (c) The loans are owed to Fine Chiffon Corporation Limited (“Fine Chiffon”), an independent third party. At 31 December 2006, the loans are comprised of (i) an interest bearing instalment loan of approximately HK\$71,843,000 (30.6.2006: HK\$73,698,000) and a non-interest bearing loan of approximately HK\$22,170,000 (30.6.2006: HK\$17,761,000) from Fine Chiffon.

In previous years, the Group obtained an interest bearing instalment loan of HK\$80,000,000 from Fine Chiffon. The instalment loan was obtained by Fine Chiffon from a bank and was granted to the Group with the same terms offered by the bank. The Company provides a corporate guarantee of HK\$80,000,000 to the bank and the Group’s leasehold properties are also pledged to the bank as security. The loan shall be repayable by 180 monthly instalments and is carried at variable interest rate with 2.5% per annum below the Hong Kong dollars Prime Rate. At 31 December 2006, the outstanding interest bearing instalment loan amounted to approximately HK\$71,843,000 (30.6.2006: HK\$73,698,000).

As announced by the Company on 5 April 2006, the Group entered into a loan agreement with Fine Chiffon to obtain a new non-interest bearing loan facility up to HK\$42,000,000. The loan is unsecured, non-interest bearing and non-revolving in nature. The loan shall be repayable on or before the date falling 36-months after the first drawdown of the loan. However, Fine Chiffon has a right to withdraw the loan facility at any time prior to the repayment date and accordingly, the loan is classified as current liabilities in the condensed consolidated balance sheet. At 31 December 2006, the outstanding non-interest bearing loan amounted to approximately HK\$22,170,000 (30.6.2006: HK\$17,761,000).

In addition, the Group also granted two options to Fine Chiffon for purchasing (i) part of the Group's leasehold properties at a consideration of HK\$32,000,000 and (ii) 20% of the share capital of Banhart Company Limited ("Banhart"), which is a wholly-owned subsidiary of the Company and is also the beneficial owner of the Group's leasehold properties, at a consideration of HK\$10,000,000 in substitution for the repayment of the outstanding loan at the end of the loan period. Fine Chiffon is also entitled to exercise the options prior to the expiry of the 36-months loan period and the options are non-transferable. Details of the above are set out, inter alia, in the announcement of the Company dated 5 April 2006.

The directors of the Company considered that the fair value of the other loans at 31 December 2006 and 30 June 2006 was approximate to the corresponding carrying amount.

14. OPTION DERIVATIVES

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Option derivatives – fair value	<u>10,220</u>	<u>9,110</u>

In April 2006, the Group granted two options to Fine Chiffon for purchasing (i) part of the Group's leasehold properties at a consideration of HK\$32,000,000 and (ii) 20% of the share capital of Banhart, which is the beneficial owner of the Group's leasehold properties, at a consideration of HK\$10,000,000 in substitution for the repayment of the outstanding loan at the end of the loan period. Fine Chiffon is entitled to exercise the options prior to the expiry of 36-months loan period and the options are non-transferable (see note 13(c)).

The fair value of the option derivatives are calculated by using the Black-Scholes Option Pricing Model and the Binomial Option Pricing Model. The inputs into both models are as follows:

Block-Scholes Option Pricing Model

Exercise price	HK\$32,000,000
Expected volatility	23.33% – 24.99%
Expected life	3 years
Risk-free rate	3.5% – 4.4%

Expected volatility is determined by using the historical volatility of the price indices for Grade A office in core districts in Hong Kong over the previous three 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 behavioral considerations.

Binomial Option Pricing Model

Exercise price	HK\$10,000,000
Expected volatility	23.33% – 24.99%
Expected life	3 years
Risk-free rate	3.5% – 4.4%

Expected volatility is determined by using the historical volatility of the price indices for Grade A office in core districts in Hong Kong over the previous three 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 behavioral considerations.

The fair value of the option derivative to purchase 20% of the share capital of Banhart depends on the net asset value of Banhart, which is equivalent to the potential of obtaining economic benefits deriving from the positive net asset value of Banhart that appears when the value of the leasehold properties held by Banhart exceeds the value of its total liabilities. A discount of 40% to the net asset value of Banhart is used in view of the lack of marketability and minority interest for the 20% equity interests in Banhart.

15. SHARE CAPITAL

	Nominal value per share HK\$	Number of shares	Amount HK\$'000
Authorised:			
At 1 July 2005, 30 June 2006 and 1 July 2006	0.50	1,000,000,000	500,000
Effect of the Capital Reorganisation referred to below (<i>Note</i>)		<u>49,000,000,000</u>	<u>–</u>
At 31 December 2006	0.01	<u>50,000,000,000</u>	<u>500,000</u>
Issued and fully paid:			
At 1 July 2005, 30 June 2006 and 1 July 2006	0.50	528,271,615	264,136
Effect of the Capital Reorganisation referred to below (<i>Note</i>)		<u>–</u>	<u>(258,853)</u>
At 31 December 2006	0.01	<u>528,271,615</u>	<u>5,283</u>

Note: As announced by the Company on 8 June 2006, the Company proposed to effect a capital reorganisation (the “Capital Reorganisation”). Details of the Capital Reorganisation are set out in the circular of the Company dated 20 July 2006.

At the special general meeting of the Company held on 21 August 2006, a special resolution approving the Capital Reorganisation was passed and the following capital reorganisation became effective on 21 August 2006:

- (i) a reduction in the nominal value of issued shares of the Company from HK\$0.50 each to HK\$0.01 each by cancelling HK\$0.49 of the paid up capital on each issued share of the Company and by reducing the nominal value of all issued and unissued shares of the Company from HK\$0.50 each to HK\$0.01 each;

- (ii) the authorised share capital of the Company will be restored to HK\$500,000,000 and each authorised but unissued share of HK\$0.50 each will be sub-divided into 50 shares of nominal value of HK\$0.01 each;
- (iii) the cancellation of the amount of approximately HK\$279,617,000 standing to the credit of share premium account and the cancellation of the amount of approximately HK\$132,176,000 standing to the credit of the contributed surplus account; and
- (iv) the use of all or substantially all of the credit of approximately HK\$670,646,000 arising from the reduction of capital and the cancellation of the entire amount standing to the credit of the share premium account and the contributed surplus account to offset in full with the accumulated losses of the Company at 31 December 2005.

16. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Nominal value per share <i>HK\$</i>	Number of preference shares	Amount <i>HK\$</i>
Authorised:			
At 24 November 2006 and 31 December 2006	0.01	<u>270,000,000</u>	<u>2,700,000</u>
Issued and fully paid:			
Issued on 24 November 2006 and balance at 31 December 2006	0.01	<u>264,135,808</u>	<u>2,641,358</u>

The convertible redeemable preference shares were issued at HK\$0.25 per share on 24 November 2006.

Movement of the convertible redeemable preference shares are as follows:

	Liability component	Equity component	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Convertible redeemable preference shares issued on 24 November 2006	39,066	26,968	66,034
Issue costs	<u>(2,110)</u>	<u>(1,458)</u>	<u>(3,568)</u>
Net proceeds received	36,956	25,510	62,466
Interest charged during the period	<u>739</u>	<u>–</u>	<u>739</u>
At 31 December 2006	<u><u>37,695</u></u>	<u><u>25,510</u></u>	<u><u>63,205</u></u>

The principal terms of the convertible redeemable preference shares include the following:

(i) *Early redemption at the opinion 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, either:

- the ordinary share in the Company close on thirty consecutive trading days at or above a price that is 100% higher than the consecutive price of the convertible price of the convertible redeemable shares; or
- there are less than 80 millions convertible redeemable preference shares in issue.

(ii) *Conversion rights*

Holder of the convertible redeemable preference shares are entitled to convert all or any of their convertible redeemable preference shares into ordinary shares in the Company at the conversion price of HK\$ 0.25 per share, subject to adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as 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.

(iii) *Dividends*

The dividend yield on subscription price is 8%. Cumulative dividends of HK\$0.02 is payable annually. The first dividend payment date is 31 December 2006, and the first dividend will be prorated from the date of issue of the convertible redeemable preference shares to the first dividend payment date. Any dividends payable but unpaid will be accumulated.

However, pursuant to Section 54 of the Companies Act 1981 of Bermuda ("Act"), a company incorporated in Bermuda is not permitted to declare or pay dividends while there are reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. As a result, the preference shares dividends will only be declared and paid upon fulfilment of the aforementioned conditions of the Act.

(iv) *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 paid, the convertible redeemable preference shares are not entitled to any further payment from or distributions by the Company.

(v) *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.

(vi) *Further issues*

The terms of the convertible redeemable preference shares do not prohibit further issues of shares ranking pari passu or in priority to the convertible redeemable preference shares.

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 Instrument: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”:

- (a) 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 if calculated by applying effective interest rates of approximately 16.6% of the debt component for the period since the convertible redeemable preference shares were issued.

- (b) Equity component represents the fair value of the embedded conversion option to convert the liability into equity of the Company.

17. CONTINGENT LIABILITIES

At 31 December 2006, the Group had given guarantee of HK\$80,000,000 (30.6.2006: HK\$80,000,000) to a bank to secure the credit facilities granted to Fine Chiffon.

In addition, the Group had the following outstanding litigation as at 31 December 2006.

- (a) In 2005, Osmar Far East Limited (of which the beneficial owners are independent third parties) and Holyrood referred disputes on the construction work for the Property to arbitration. Osmar Far East Limited has claimed against Holyrood for approximately HK\$6 million in relation to disputes on construction cost for the Property and Holyrood counterclaimed against Osmar Far East Limited for approximately HK\$9 million in relation to the defective works performed by Osmar Far East Limited. The arbitration is still in proceeding.

- (b) In 2005, P&T Architects Engineers Limited (of which the beneficial owners are independent third parties) and Holyrood referred disputes in relation to architect fees for the Property to arbitration. P&T Architects Engineers Limited has claimed against Holyrood for approximately HK\$1 million in relation to disputes on architect fees for the Property and Holyrood counterclaimed against P&T Architect Engineers Limited for approximately HK\$20 million in relation to breach of professional duty of care. The arbitration is pending for the arbitrator's award.
- (c) On 30 November 2005, Holyrood filed an indorsement against P&T Architects Engineers Limited in relation to P&T Architects Engineers Limited's professional negligence as a structural engineer on a construction work for the Property. The litigation is still ongoing and the amount of the claim against P&T Architects Engineers Limited is to be determined.
- (d) On 26 July 2005, Brightland Corporation Limited (of which the beneficial owners are all independent third parties) issued a writ against Banhart claiming for a sum of approximately HK\$858,000 together with interest and other relief in relation to a sale and purchase agreement entered into by Banhart for the sale of part of the Group's leasehold properties in December 2004. The sale and purchase agreement was subsequently cancelled at the beginning of 2005 as a result of the dispute of the transaction between both parties. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (e) was made by the court on 9 June 2006. The litigation is still ongoing and the date of trial is yet to be fixed by the court.
- (e) On 27 February 2006, Crowning Success Limited (of which the beneficial owners are all independent third parties), a sub-purchaser of the part of the Group's leasehold properties, issued a summons against Banhart for the purpose of joining Banhart as the second defendant in its action against Brightland Corporation Limited. On 13 April 2006, the court ordered that Banhart be joined as the second defendant in the action. The amended writ and the amended statement of claim were filed and served on 27 April 2006. The amended statement of claim was re-amended on 13 November 2006. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (d) above was made by the court on 9 June 2006. The lien claim by Crowning Success Limited shall not exceed the amount of the lien that Brightland Corporation Limited could claim against Banhart for the breach of the agreement. The litigation is still ongoing and the date of trial is yet to be fixed by the court.

- (f) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) commenced a proceeding against Holyrood in relation to a sale and purchase in respect of an apartment and a car parking space of the Property. The claim by Chinese Regency Limited was for general damages to be assessed. Holyrood denied the claims and shall defend the actions according to the laws.
- (g) A claim by Hip Hing Construction Limited (of which the beneficial owners are independent third parties) against Holyrood for approximately HK\$59 million in relation to disputes on construction work performed by Hip Hing Construction Limited in relation to the redevelopment project at the Peak Road. The contracts between Hip Hing Construction Limited and Holyrood have incorporated arbitration provisions and in 2006, both parties have agreed to refer to the disputes to arbitration.

Holyrood is preparing a claim against Hip Hing Construction Limited for defective works, rectification costs and damages for an amount to be determined. Although Holyrood has made provision for approximately HK\$16 million in relation to the construction cost, as the arbitrator between the parties is still proceeding, the outcome of this matter cannot be determined with reasonable certainty at this time.

18. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to secure credit facilities granted to the Group.

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held for sale	736,272	948,525
Investment properties	245,600	167,900
Leasehold properties	167,534	169,852
Bank deposits	20,000	20,144
	<u>1,169,406</u>	<u>1,306,421</u>

At 30 June 2006, the issued ordinary shares of Holyrood were also pledged to certain banks to secure credit facilities granted to the Group (see note 12). At 31 December 2006, the pledge of issued ordinary shares of Holyrood was released by the banks.

19. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	31.12.2006	30.6.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit facilities granted to the Group	678,585	1,544,000
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	15,919	15,919
	<u>694,504</u>	<u>1,559,919</u>

- (b) Details of the amounts due to directors of subsidiaries including Lilian Oung are set out in note 11.
- (c) Details of the other loans from related companies in which the directors of the Company and Lilian Oung have controlling interests are set out in note 13.
- (d) At 30 June 2006, Five Star pledged its interest in 50.7% of issued share capital of the Company, representing 267,815,017 shares in the Company, to a bank to secure credit facilities to the extent of approximately HK\$1,464,000,000 granted to the Group. At 31 December 2006, the pledge of 50.7% interest in the issued share capital of the Company by Five Star was released by the bank.