

## MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the “Peak Road Project”) and trading of textiles.

## BUSINESS REVIEW AND PROSPECTS

### Re-development

The Peak Road Project located at Nos. 8, 10 and 12 Peak Road, Hong Kong consists of 34 apartment units and a 3-storey private house and the gross floor area is approximately 119,000 square feet. The Company commenced the pre-sale of the Peak Road Project on 22 November 2004. 10 apartment units were sold for the year ended 30 June 2005. The Group sold 1 apartment unit for approximately HK\$48 million for the six months ended 31 December 2006.

In the past few years, the management adopted strategy to focus on the completion of the Peak Road Project. Going forward, the management is confident that the returns from the Peak Road Project will significantly improve the Group’s financial position and generate a stable income for the Group.

### Trading of textiles

The management of the Company is currently focusing the resources of the Group on the development, completion and marketing of the project. As a result, this sector has not generated any income for the six months ended 31 December 2006.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2006, net current liabilities of the Group were approximately HK\$661 million. The current ratio was 3.28. The pledged bank deposits, bank balances and cash were approximately HK\$58 million.

As at 31 December 2006, the Group has outstanding borrowings of approximately HK\$1,243 million comprising (i) secured bank loans of approximately HK\$916 million, (ii) other loans and amounts due to directors of subsidiaries of approximately HK\$142 million and (iii) other payables and taxation payable of approximately HK\$185 million. The bank borrowings are on floating interest rates basis.

## **PALADIN LIMITED**

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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.

The Group's bank loans and other loans were secured by leasehold land and buildings, and properties held for sale of approximately HK\$1,169 million.

The Group's gearing ratio, total debts divided by total assets, was approximately 94%.

### **SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS**

During the six months ended 31 December 2006, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2006, the Group had no material investment.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2006, the Group employed a total of 14 employees. They were remunerated according to market conditions.

### **CONTINGENT LIABILITIES**

As at 31 December 2006, the Group has contingent liabilities of approximately HK\$80 million relating to corporate guarantees given in respect of bank loan facilities granted to an independent third party. In addition, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK\$67 million and a provision of HK\$16 million has been provided in the condensed consolidated financial statements. In the opinion of the directors, the remaining balances of liabilities were remote and no provision has been made in the consolidated financial statements.

### **INTERIM DIVIDEND**

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2006.