

PALADIN LIMITED

(incorporated in Bermuda with limited liability)

Stock Code: 495 and 642

INTERIM REPORT

2007

For the six months ended 31 December 2007

PALADIN LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

		Six months ended	
		31 December	
		2007	2006
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	215,037	48,298
Cost of sales		(213,900)	(28,771)
Gross profit		1,137	19,527
Other income		4,249	377
Administrative expenses		(27,759)	(15,393)
Gain arising on change in fair value of investment properties		38,500	46,393
Loss arising from change in fair value of option derivatives		(10,065)	(1,110)
Finance costs	4	(33,730)	(26,828)
(Loss) profit before taxation		(27,668)	22,966
Taxation charge	5	(6,737)	–
(Loss) profit for the period attributable to equity holders of the Company		(34,405)	22,966
(Loss) earnings per share	6		
Basic		(6.46) HK cents	4.35 HK cents
Diluted		N/A	4.07 HK cents

PALADIN LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

		31.12.2007	30.6.2007
	NOTES	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Investment properties	8	214,000	175,500
Property, plant and equipment	9	164,644	167,338
Available-for-sale investments		8,800	8,800
		<hr/>	<hr/>
		387,444	351,638
		<hr/>	<hr/>
Current assets			
Properties held for sale	10	919,754	919,754
Trade and other receivables, deposits and prepayments	11	106,405	3,762
Pledged bank deposits		20,000	21,278
Bank balances and cash		94,234	12,559
		<hr/>	<hr/>
		1,140,393	957,353
		<hr/>	<hr/>

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		31.12.2007	30.6.2007
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Current liabilities			
Bills payable		70,416	–
Other payables		140,743	135,680
Amounts due to directors of subsidiaries	12	–	24,098
Taxation payable		345	345
Secured bank loans – amount			
due within one year	13	120,207	20,787
Other loans – amount due within one year	14	112,639	95,561
Option derivatives	15	15,545	5,480
Bank overdrafts		27,654	–
Provision for settlement of litigation claim	16	–	55,000
		487,549	336,951
Net current assets			
		652,844	620,402
		1,040,288	972,040
Capital and reserves			
Share capital	17	5,327	5,312
Reserves		(73,575)	(54,046)
		(68,248)	(48,734)

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		31.12.2007	30.6.2007
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Non-current liabilities			
Secured bank borrowings –			
amount due after one year	13	1,001,308	905,568
Other loans – amount due after one year	14	63,480	64,573
Convertible redeemable preference shares	18	26,116	39,738
Deferred tax liabilities		17,632	10,895
		<hr/>	<hr/>
		1,108,536	1,020,774
		<hr/>	<hr/>
		1,040,288	972,040
		<hr/> <hr/>	<hr/> <hr/>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company							Total
	Share capital	Share premium	Contributed surplus	Capital reserve	Translation reserve	Investment revaluation reserve	Accumulated (losses) profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)	(Note b)				
At 1 July 2006	264,136	279,617	132,176	-	(3,088)	-	(639,751)	33,090
Loss for the year	-	-	-	-	-	-	(109,059)	(109,059)
Change in fair value of available-for-sale investment and total income recognised directly in equity	-	-	-	-	-	1,300	-	1,300
Total recognised income and expenses for the year	-	-	-	-	-	1,300	(109,059)	(107,759)
Reduction of share capital, share premium and contributed surplus to offset accumulated losses (see note 17)	(258,853)	(279,617)	(132,176)	-	-	-	670,646	-
Recognition of equity component of convertible redeemable preference shares (see note 18)	-	-	-	26,968	-	-	-	26,968

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Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 <i>(Note a)</i>	Capital reserve HK\$'000 <i>(Note b)</i>	Translation reserve HK\$'000	Investment	Accumulated	Total HK\$'000
						revaluation reserve HK\$'000	(losses) profits HK\$'000	
Issue costs of convertible redeemable preference shares (see note 18)	-	-	-	(1,458)	-	-	-	(1,458)
Issue of shares on convertible redeemable preference shares	29	689	-	(293)	-	-	-	425
	<u>(258,824)</u>	<u>(278,928)</u>	<u>(132,176)</u>	<u>25,217</u>	<u>-</u>	<u>-</u>	<u>670,646</u>	<u>25,935</u>
At 30 June 2007 and 1 July 2007	<u>5,312</u>	<u>689</u>	<u>-</u>	<u>25,217</u>	<u>(3,088)</u>	<u>1,300</u>	<u>(78,164)</u>	<u>(48,734)</u>
Loss for the period and total recognised expenses for the period	-	-	-	-	-	-	(34,405)	(34,405)
Increase in capital reserve for convertible redeemable preference shares (see note 18)	-	-	-	14,745	-	-	-	14,745
Issue of shares on convertible redeemable preference shares	15	360	-	(229)	-	-	-	146
At 31 December 2007	<u><u>5,327</u></u>	<u><u>1,049</u></u>	<u><u>-</u></u>	<u><u>39,733</u></u>	<u><u>(3,088)</u></u>	<u><u>1,300</u></u>	<u><u>(112,569)</u></u>	<u><u>(68,248)</u></u>

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Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000 <i>(Note a)</i>	Capital reserve HK\$'000 <i>(Note b)</i>	Translation reserve HK\$'000	Investment	Accumulated	Total HK\$'000
						revaluation reserve HK\$'000	(losses) profits HK\$'000	
At 1 July 2006	264,136	279,617	132,176	-	(3,088)	-	(639,751)	33,090
Profit for the period and total recognised income for the period	-	-	-	-	-	-	22,966	22,966
Reduction of share capital, share premium and contributed surplus to offset accumulated losses (see note 17)	(258,853)	(279,617)	(132,176)	-	-	-	670,646	-
Recognition of equity component of convertible redeemable preference shares (see note 18)	-	-	-	26,968	-	-	-	26,968
Issue costs of convertible redeemable preference shares (see note 18)	-	-	-	(1,458)	-	-	-	(1,458)
At 31 December 2006	5,283	-	-	25,510	(3,088)	-	53,861	81,566

Notes:

- (a) The contributed surplus of the Group represents the surplus arising on acquisition of subsidiaries through the group organisation in the preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1991.
- (b) The capital reserve represents the equity component of convertible redeemable preference shares issued during the year ended 30 June 2007.

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Six months ended	
	31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash (used in) from operating activities	(104,124)	19,243
Net cash from (used in) investing activities	3,559	(1,305)
Net cash from financing activities	182,240	9,934
	<hr/>	<hr/>
Net increase in cash and cash equivalents	81,675	27,872
Cash and cash equivalents at beginning of the period	12,559	10,316
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	94,234	38,188
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	94,234	38,188
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

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.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs” or “new HKASs” or “new HK(IFRIC) – INTs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 July 2007.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 10	Interim financial reporting and impairment ²
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions ³

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

² Effective for annual periods beginning on or after 1 November 2006

³ Effective for annual periods beginning on or after 1 March 2007

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES – continued

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK(IFRIC) – INT 12	Service concession arrangements ²
HK(IFRIC) – INT 13	Customer loyalty programmes ³
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ³

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

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

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

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3. SEGMENT INFORMATION – continued

Segment information about these businesses is presented below:

Six months ended 31 December 2007

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	–	996	214,041	215,037
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
RESULT				
Segment result	(11,375)	35,516	(835)	23,306
Unallocated corporate income				2,275
Unallocated corporate expense				(9,454)
Loss arising from change in fair value of option derivatives				(10,065)
Finance costs				(33,730)
				<u> </u>
Loss before taxation				(27,668)
Taxation charge				(6,737)
				<u> </u>
Loss for the period				<u><u>(34,405)</u></u>

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3. SEGMENT INFORMATION – continued

Six months ended 31 December 2006

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	General trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	48,298	–	–	48,298
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
RESULT				
Segment result	22,094	44,116	(6,218)	59,992
Unallocated corporate income				377
Unallocated corporate expense				(9,465)
Loss arising from change in fair value of option derivatives		–	–	(1,110)
Finance costs				(26,828)
				<u> </u>
Profit for the period				22,966
				<u> </u>

More than 90% of the Group's turnover for the six months ended 31 December 2007 and 2006 was attributable to the operations carried out in Hong Kong.

4. FINANCE COSTS

	Six months ended	
	31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings:		
- wholly repayable within five years	4,725	1,393
- not wholly repayable within five years	24,424	22,608
Interest on convertible redeemable preference shares (note 18)	1,269	739
Other borrowing costs	3,312	2,088
	<u> </u>	<u> </u>
	33,730	26,828
	<u> </u>	<u> </u>

5. TAXATION

	Six months ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong Profit Tax for the period	-	-
Deferred tax charge	6,737	-
	<hr/>	<hr/>
Tax charge attributable to the Company and its subsidiaries	6,737	-
	<hr/> <hr/>	<hr/> <hr/>

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

No provision for Hong Kong Profits Tax had been made in the previous period condensed consolidated financial statements as the estimated profit for that period was wholly absorbed by the tax losses brought forward.

In August 2007, a subsidiary of the Company received an assessment demanding (the "Assessment") for the year of assessment of 2006/2007 from Hong Kong Inland Revenue Department ("IRD"). By issuing the Assessment, the IRD disagreed the basis adopted by this subsidiary for computation of Hong Kong Profits Tax liability. In addition, the IRD also disagreed the tax losses brought forward of this subsidiary for the year of assessments from 1997/1998 to 1999/2000 and 2004/2005 with aggregated amount of approximately HK\$152,347,000. An objection has been lodged by the Group in September 2007 and the IRD has agreed to withhold the provisional profits tax for year of assessment of 2007/2008. The Group has arranged a bank guarantee of approximately HK\$36,956,000 in favour of IRD to secure the tax payable of approximately HK\$36,956,000 for the year of assessment of 2006/2007.

In the opinion of the directors of the Company, the Group has grounds to object the IRD's Assessment and the tax losses brought forward from previous years could be used to offset with the assessable profits for the year. As a result, no provision for Hong Kong Profits Tax has been made for the six months ended 31 December 2007.

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6. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
(Loss) earnings for the period for the purpose of calculating basic (loss) earnings per share	(34,405)	22,966
<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

	Six months ended	
	31 December	
	2007	2006
Number of shares		
Weighted average number of shares/number of shares for the purposes of calculating basic (loss) earnings per share	532,393,992	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

The calculation of diluted loss per share for the six months ended 31 December 2007 has not been disclosed as the exercise of the Company's outstanding convertible redeemable preference shares would reduce the loss per share for the period.

7. DIVIDEND

No dividends were paid by the Company in both periods and the Company does not have distributable reserve for distribution in both periods.

8. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 31 December 2007 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 2007, the gain arising on change in fair value of the investment properties of approximately HK\$38,500,000 (1.7.2006 to 31.12.2006: HK\$46,393,000) has been recognised in the condensed consolidated income statement. In addition, a property of approximately HK\$31,307,000 (1.7.2007 to 31.12.2007: nil) previously classified as properties held for sale had been reclassified as investment properties during the six months ended 31 December 2006.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$2,688,000 (1.7.2006 to 31.12.2006: HK\$2,396,000) were charged in respect of the Group's property, plant and equipment. There are no additions of property, plant and equipment for the six months ended 31 December 2007 (1.7.2006 to 31.12.2006: HK\$1,787,000) and the loss on disposal of property, plant and equipment for the six months ended 31 December 2007 amounted to HK\$6,000 (1.7.2006 to 31.12.2006: nil).

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10. PROPERTIES HELD FOR SALE

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of properties held for sales	919,754	919,754
	<u><u> </u></u>	<u><u> </u></u>

At 31 December 2007 and 30 June 2007, the properties held for sale are stated at cost.

11. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	64,624	–
61 – 90 days	38,430	–
	<u> </u>	<u> </u>
	103,054	–
	<u><u> </u></u>	<u><u> </u></u>

12. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amounts were 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 were unsecured, non-interest bearing and repaid in full during the six months ended 31 December 2007.

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13. SECURED BANK BORROWINGS

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage loans	1,028,432	906,355
Bank loan	–	20,000
Trust receipt loans	93,083	–
	<hr/>	<hr/>
	1,121,515	926,355
Less: Amount due within one year shown under current liabilities	(120,207)	(20,787)
	<hr/>	<hr/>
Amount due after one year	1,001,308	905,568
	<hr/> <hr/>	<hr/> <hr/>

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

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	120,207	20,787
In more than one year but not more than two years	27,971	31,519
In more than two years but not more than three years	27,971	31,519
In more than three years but not more than four years	27,971	21,519
In more than four years but not more than five years	118,039	21,519
Over five years	799,356	799,492
	<hr/>	<hr/>
	1,121,515	926,355
	<hr/> <hr/>	<hr/> <hr/>

13. SECURED BANK BORROWINGS – continued

At 30 June 2007, the mortgage loans comprised (i) a mortgage loan with a principal amount of HK\$80,000,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 2% per annum below the Hong Kong dollars Prime Rate; (ii) a mortgage loan with a principal amount of HK\$550,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.35% per annum below the Hong Kong dollars Prime Rate; (iii) a mortgage loan with a principal amount of HK\$30,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.65% per annum below the Hong Kong dollars Prime Rate; (iv) a mortgage loan with a principal amount of HK\$32,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (v) a mortgage loan with a principal amount of HK\$70,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.6% per annum below the Hong Kong dollars Prime Rate; (vi) a mortgage loan with a principal amount of HK\$69,300,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 1.25% per annum above HIBOR; (vii) a mortgage loan with a principal amount of HK\$61,100,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 1.25% per annum above HIBOR; and (viii) a mortgage loan with a principle amount of HK\$32,000,000 that shall be repayable by 300 monthly instalments and carry interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate.

During the six months ended 31 December 2007, the Group obtained two new mortgage loans from banks. The new mortgage loans comprised (i) a mortgage loan with a principal amount of HK\$110,000,000 that shall be repayable by 60 monthly instalments and carry interest at a rate of 1.2% per annum over HIBOR and (ii) a mortgage loan with a principal amount HK\$100,000,000 that shall be repayable by 240 monthly instalments and carry interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate.

The range of effective interest rates of the Group's bank borrowings were 3.45% to 8.50% per annum for the six months ended 31 December 2007 (1.7.2006 to 30.6.2007: 5.09% to 8.50%).

All mortgage loans are secured by certain apartments of the Group's properties held for sale and investment properties 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.

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14. OTHER LOANS

	31.12.2007	30.6.2007
	HK\$'000	HK\$'000
Other loans from:		
- related companies (<i>Note a</i>)	13,619	13,489
- a third party (<i>Note b</i>)	109,350	111,906
- other unrelated companies (<i>Note c</i>)	53,150	34,739
	<u>176,119</u>	<u>160,134</u>
Less: Amount due within one year shown under current liabilities	(112,639)	(95,561)
	<u>63,480</u>	<u>64,573</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 owed to Fine Chiffon Corporation Limited ("Fine Chiffon"), an independent third party. At 31 December 2007, the loans are comprised of (i) an interest bearing instalment loan of approximately HK\$67,886,000 (30.6.2007: HK\$69,906,000) and a non-interest bearing loan of approximately HK\$41,464,000 (30.6.2007: HK\$42,000,000) 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 2007, the outstanding interest bearing instalment loan amounted to approximately HK\$67,886,000 (30.6.2007: HK\$69,906,000).

14. OTHER LOANS – continued

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 2007, the outstanding non-interest bearing loan amounted to approximately HK\$41,464,000 (30.6.2007: HK\$42,000,000).

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.

- (c) The loans are unsecured, interest bearing at a rate of 2% per annum over the Hong Kong dollars Prime Rate (30.6.2007: non-interest bearing) and repayable on demand.

The directors of the Company considered that the fair value of the other loans at 31 December 2007 and 30 June 2007 was approximate to the corresponding carrying amount.

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15. OPTION DERIVATIVES

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Option derivatives – fair value	15,545	5,480

As described in note 14, 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 ("Option 1") 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 ("Option 2"). 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 14(b)).

The fair values of the option derivatives granted by the Group are determined by using the Black-Scholes Option Pricing Model and the Binomial Option Pricing Model, respectively.

During the six months period ended 31 December 2007, the loss arising from change in fair value of option derivatives amounted to HK\$10,065,000 (1.7.2006 to 31.12.2006: HK\$1,110,000).

The fair values of the option derivatives for Option 1 and Option 2 are calculated by using the Black-Scholes Option Pricing Model and the Binomial Option Pricing Model, respectively. The inputs into both models are as follows:

Black-Scholes Option Pricing Model – Option 1

	31.12.2007	30.6.2007
Exercise price	HK\$32,000,000	HK\$32,000,000
Expected volatility	18.87%	18.87%
Expected life	3 years	3 years
Risk-free rate	2.56%	4.3%
Fair value of the leasehold properties at the balance sheet date	HK\$235,000,000	HK\$170,000,000
Fair value of option at the balance sheet date	HK\$15,495,000	HK\$5,480,000

15. OPTION DERIVATIVES – continued

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.

Binomial Option Pricing Model – Option 2

	31.12.2007	30.6.2007
Exercise price	HK\$10,000,000	HK\$10,000,000
Expected volatility	18.87%	18.87%
Expected life	3 years	3 years
Risk-free rate	2.56%	4.3%
Fair value of option at the balance sheet date	HK\$50,000	Nil

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 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 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 of the shares of Banhart and being a minority shareholder in Banhart.

16. PROVISION FOR SETTLEMENT OF LITIGATION CLAIM

As announced by the Company on 23 October 2007, Holyrood Limited (“Holyrood”), a wholly-owned subsidiary of the Company, reached a settlement agreement with Hip Hing Construction Company Limited (“Hip Hing”) in respect of a dispute with Hip Hing on construction work performed by Hip Hing for the redevelopment project located at the Peak Road (the “Peak Road Project”). Hip Hing claimed against Holyrood for approximately HK\$69,000,000 for the construction costs of the Peak Road Project. The contracts between Hip Hing and Holyrood incorporate arbitration provisions, and, in 2006, both parties agreed to refer the disputes to the arbitration on 6 January 2006. On 22 October 2007, a settlement agreement were entered into between Holyrood and Hip Hing. Pursuant to the settlement agreement, Holyrood agreed to pay HK\$50,000,000 to Hip Hing together with estimated legal costs of the arbitration amounting to approximately HK\$5,000,000. The provision of HK\$55,000,000 has been made during the year ended 30 June 2007. The provision was fully settled by Holyrood to Hip Hing during the six months ended 31 December 2007.

17. SHARE CAPITAL – continued

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 authorized 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 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.

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18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount <i>HK\$'000</i>
Authorised:		
At 24 November 2006, 30 June 2007 and 31 December 2007	270,000,000	2,700
	<u>270,000,000</u>	<u>2,700</u>
Issued and fully paid:		
Issued on 24 November 2006	264,135,807	2,641
Conversion of issued convertible redeemable preference shares into ordinary shares	(2,872,377)	(29)
	<u>261,263,430</u>	<u>2,612</u>
At 30 June 2007	261,263,430	2,612
Conversion of issued convertible redeemable preference shares into ordinary shares	(1,500,000)	(15)
	<u>259,763,430</u>	<u>2,597</u>
At 31 December 2007	259,763,430	2,597
	<u>259,763,430</u>	<u>2,597</u>

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

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18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES – continued

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	(2,110)	(1,458)	(3,568)
	<hr/>	<hr/>	<hr/>
Net proceeds received	36,956	25,510	62,466
Interest charged for the period from			
24 November 2006 to 31			
December 2006	739	–	739
	<hr/>	<hr/>	<hr/>
At 31 December 2006	37,695	25,510	63,205
Conversion of convertible redeemable			
preference shares	(425)	(293)	(718)
Interest charged for the period from			
1 January 2007 to 30 June 2007	2,468	–	2,468
	<hr/>	<hr/>	<hr/>
At 30 June 2007	39,738	25,217	64,955
Reclassification (<i>Note</i>)	(14,745)	14,745	–
Conversion of convertible redeemable			
preference shares	(146)	(229)	(375)
Interest charged for the period from			
1 July 2007 to 31 December 2007	1,269	–	1,269
	<hr/>	<hr/>	<hr/>
At 31 December 2007	<u>26,116</u>	<u>39,733</u>	<u>65,849</u>

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES – continued

Notes:

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 fixed dividend of HK\$0.02 per convertible redeemable preference share payable annually has been revoked and replaced with the right to receive a dividend per convertible redeemable preference share based on the dividend or any other distribution (if any) per ordinary share of Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company and engaged in manufacture of optical sensor systems and optical communication products, declared and paid by Sensors Integration Technology Limited.

(ii) *Early redemption at the option of the Company*

The early redemption option of the Company in the event that the price of the ordinary share of the Company close on thirty consecutive trading days at a price that is 100% higher than the conversion price of convertible redeemable preference share has been revoked.

(iii) *Further issues*

The right of the Company to issue convertible redeemable preference shares in priority to the existing convertible redeemable preference shares has been revoked. 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 Sensors Integration Technology Limited and at the same price.

As a result of the alternation of the terms of the existing convertible redeemable preference shares, the liability component of the existing convertible redeemable preference shares has been decreased by approximately HK\$14,745,000 and, in turn the equity component of the existing convertible redeemable preference shares has been increased by approximately HK\$14,745,000 as at 3 July 2007.

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES – continued

The principal revised 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 there are less than 80 millions convertible redeemable preference shares in issue.

(ii) *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 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) *Cumulative dividends*

The dividend per convertible redeemable preference share is based on the dividend or any other distribution (if any) per ordinary share of Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company and engaged in manufacture of optical sensor systems and optical communication products, declared and paid by Sensors Integration Technology Limited.

Sensors Integration Technology Limited will declare a dividend to its shareholders only if Sensors Integration Technology Limited 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.

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES – continued

(iv) *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 then outstanding convertible redeemable preference shares, whereupon subject to the requirements of the 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 any 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.

(v) *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.

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES – continued

(vi) *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.

(vii) *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 Sensors Integration Technology Limited 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 Instrument: Disclosure and Presentation”:

- (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 10.6% of the debt component for the period since the convertible redeemable preference shares were issued.

- (b) 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.

19. CONTINGENT LIABILITIES

At 31 December 2007, the Group had given guarantee of HK\$80,000,000 (30.6.2007: HK\$80,000,000) to a bank to secure the credit facilities granted to Fine Chiffon.

In addition, the Group had the following outstanding litigations as at 31 December 2007 that the directors of the Company are of the opinion that the estimated contingent liabilities arising from the litigations cannot be reasonably ascertained at the current stage.

- (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 Peak Road Project to arbitration. Osmar Far East Limited has claimed against Holyrood for approximately HK\$6.1 million in relation to the disputes concerning the non-payment of construction cost for the Peak Road Project. A provision for approximately HK\$6.1 million in relation to the construction cost had been provided by Holyrood in previous years. Holyrood counterclaimed against Osmar Far East Limited for approximately HK\$6.1 million in relation to the liquidated damages and rectification cost caused by defective works performed by Osmar Far East Limited. The hearing was completed on 5 October 2007 and the closing and reply submissions had been completed on 16 November 2007. The case is still pending for the arbitrator's award.
- (b) On 26 July 2005, Brightland Corporation Limited (of which the beneficial owners are all independent third parties) issued a writ against Banhart, a wholly-owned subsidiary of the Company, claiming various declarations, damages and other relief in relation to a sale and purchase of the Group's property situated at Unit C on the 45th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (c) was made by the court on 9 June 2006. This action was consolidated with the action mentioned in paragraph (c) below on 9 June 2006.

19. CONTINGENT LIABILITIES – continued

- (c) On 27 February 2006, Crowning Success Limited (of which the beneficial owners are all independent third parties), a sub-purchaser of the Group's property situated at Unit C on the 45th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong, 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. An order relating to the consolidation, and subsequent directions, of this action with the action mentioned in paragraph (b) above was made by the court on 9 June 2006. The parties have already filed their pleadings. On 7 December 2007, Banhart issued a summons for an order of the court that upon payment into court a sum of HK\$1,893,082 as security for the claim made by Brightland Corporation Limited and a sum of HK\$2,481,447 as security for the claim made by Crowning Success Limited, certain incumbrances registered against the subject property be vacated. The said summons will be heard on 18 March 2008. On 14 February 2008, Crowning Success Limited issued a summons for an order of the court that the parties do mutually exchange expert valuation report on the market values of the subject property as at 22 July 2005 and thereafter at 3 months interval until 22 January 2008. The court refused to grant such an order but instead ordered the parties to exchange expert valuation report on the market values of the subject property as at 22 July 2005 and 22 January 2006. On 6 March 2008, Crowning Success Limited filed a notice of appeal to appeal such decision. The appeal will be heard on 22 April 2008.
- (d) In 2005, P&T Architects Engineers Limited ("P&T") and Holyrood referred disputes in relation to architect fees for the Peak Road project to arbitration. P&T has claimed against Holyrood for approximately HK\$1 million in relation to disputed architect fees for the project and Holyrood brought 7 heads of counterclaims against P&T for approximately HK\$28 million in relation to alleged breach of professional duty of care. The hearing was completed and following interim awards were respectively made on 17 July 2007 and 25 January 2008:

19. CONTINGENT LIABILITIES – continued

(d) – continued

(I) Holyhood shall pay P&T:

- (i) a sum of HK\$860,337.30 being the arrears of professional fee and reimbursement of printing cost and out of pocket expenses; and
- (ii) interest on the sum of HK\$860,337.30. The interest shall be calculated on simple interest basis at the rate of prime rate + 1% and run from 22 April 2005;

(II) Holyhood's counterclaims are dismissed; and

(III) as to costs, which was held in favour of P&T:

- (i) cost in respect of counterclaim nos. 2 to 7 to P&T to be taxed on a party and party basis if not agreed;
- (ii) cost in respect of the counterclaim no. 1 brought by Holyhood against P&T for loss due to the alleged failure on the part of P&T to advise and claim on behalf of Holyhood GFA exemption to be assessed on indemnity basis, to be fixed by the Arbitrator if not agreed;
- (iii) simple interest on the sums of costs at judgement rate respectively commencing as to (i) from 17 July 2007 and as to (ii) from 25 January 2008; and
- (iv) costs of the Arbitrators.

(e) On 30 November, 2005, Holyhood filed an indorsement against P&T (of which the beneficial owners are all independent third parties) in relation to P&T's professional negligence as a structural engineer on a construction work for the Peak Road project. The litigation is ongoing.

(f) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyhood, claiming damages for breach of an agreement for sale and purchase of Flat B on the 5th Floor of Block A1 and the car parking space No. 5 of the Peak Road Project. The pleading stage has completed and the litigation is still ongoing. As the amount of damages and claims are to be assessed, no such details are available.

19. CONTINGENT LIABILITIES – continued

- (g) An action was commenced on 18 January 2007 by Vic-Form Co., Limited (of which the beneficial owners are independent third parties) against Holyrood for a claim for outstanding contract sum in the amount of HK\$251,500 for the delivery of goods and services rendered by Vic-Form Co., Limited to Holyrood in respect of the residential development of the Peak Road Project. A defense and counterclaim has been filed by Holyrood on 27 March 2007, and the discovery stage is lapsed. The case has been set down for trial, and further witness statements/affirmations are to be filed by the parties.
- (h) On 1 June 2007, Gateway International Development Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat A on the 6th Floor of Block A2 and the car parking space No. 51 of the Peak Road Project and breach of the Deed of Mutual Covenant and nuisance. The pleading stage has completed. As the amount of damages and claims are to be assessed, no such details are available.
- (i) On 1 June 2007, Sun Crown Trading Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 6th Floor of Block A2 and the car parking spaces Nos. 47 and 48 of the Peak Road Project and breach of the Deed of Mutual Covenant and nuisance. The pleading stage has completed. As the amount of damages and claims are to be assessed, no such details are available.
- (j) On 1 June 2007, Trillion Holdings Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 8th Floor of Block A2 and the car parking spaces Nos. 41 and 42 of the Peak Road Project and breach of the Deed of Mutual Covenant and nuisance. The pleading stage has completed. As the amount of damages and claims are to be assessed, no such details are available.
- (k) In November 2007, the Group arranged a bank guarantee of approximately HK\$36,956,000 in favour of IRD to secure the tax payable of a subsidiary of the Group for the year of assessment of 2006/2007 amounting to approximately HK\$36,956,000.

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20. PLEDGE OF ASSETS

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

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held for sale	901,288	767,579
Investment properties	214,000	175,500
Leasehold properties	162,782	165,101
Bank deposits	20,000	21,278
	<hr/> 1,298,070 <hr/>	<hr/> 1,129,458 <hr/>

21. 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:

	31.12.2007	30.6.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit facilities granted to the Group	910,919	684,000
The Group's payment obligation of amount owed to a former main contractor of the Group's property development project	15,919	15,919
	<hr/> 926,838 <hr/>	<hr/> 699,919 <hr/>

(b) Details of the amounts due to directors of subsidiaries are set out in note 12.

(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 14(a).

22. POST BALANCE SHEET EVENT

Subsequent to 31 December 2007, the Company announced to terminate the open offer of convertible redeemable preference shares of HK\$0.01 each in the proportion of one convertible redeemable preference share for every two existing ordinary shares and for every two existing convertible redeemable preference shares at HK\$0.50 per convertible redeemable preference share.

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.

BUSINESS REVIEW AND PROSPECTS

Property 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 and 11 apartment units were sold up to 31 December 2007. No apartment was sold for the six months ended 31 December 2007.

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.

Property investment

The investment properties have generated rental income of approximately HK\$1 million for the six months ended 31 December 2007.

General trading

The turnover of this sector was increased to HK\$214 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2007, net current assets of the Group were approximately HK\$653 million. The current ratio was 2.34. The pledged bank deposits, bank balances and cash were approximately HK\$114 million.

As at 31 December 2007, the Group has outstanding borrowings of approximately HK\$1,536 million comprising (i) bank overdraft and secured bank loans of approximately HK\$1,149 million, (ii) other loans and amounts due to directors of subsidiaries of approximately HK\$176 million and (iii) bills payable and other payables of approximately HK\$211 million. The bank borrowings are on floating interest rates basis.

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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 investment properties leasehold land and buildings, properties held for sale and bank deposits of approximately HK\$1,298 million.

The director consider that it is not meaningful to publish a gearing ratio of the Group until such time as the Group is in a positive shareholders equity position.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2007, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2007, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group employed a total of 14 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2007, 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\$12 million and a provision of approximately HK\$6 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 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2007, 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 share capital of the Company
Chen Te Kuang Mike	Beneficial owner	5,000,000	0.94%
	Held by a controlled corporation (<i>Note</i>)	21,035,000	3.95%
		<hr/> 26,035,000	<hr/> 4.89%
Oung Shih Hua, James	Beneficial owner	5,000,000	0.94%

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

Name of director	Capacity	Number of issued	Percentage
		convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares held
Chen Te Kuang Mike	Beneficial owner	2,500,000	0.96%
	Held by a controlled corporation (<i>Note</i>)	9,099,014	3.50%
		<hr/>	<hr/>
		11,599,014	4.46%
Oung shih Hua, James	Beneficial owner	2,500,000	0.96%

Note: These shares are held by Goldenfield Equities Limited, a company in which Mr. Chen Te Kuang Mike has beneficial interest.

Save as disclosed above, as at 31 December 2007, 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.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Five Star Investments Limited	Beneficial owner	267,815,017	50.28

Name of shareholder	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares held
Five Star Investments Limited	Beneficial owner	133,907,508	51.55%
Oung Da Ming	Beneficial owner	50,000,000	19.25%

Other than as disclosed above, as at 31 December 2007 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.

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.

AUDIT COMMITTEE

The interim financial report of the Group for the six months ended 31 December 2007 has not been audited by the Group's auditors, but has been reviewed by the audit committee.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the period, the Company had complied with the relevant provisions set out in the Code of Corporate Governance Practices (the “CGP Code”) based on the principles set out in Appendix 14 to the Listing Rules, save for the following:

Under the Code provision A.4.1, the non-executive directors should be appointed for a specific term, subject to re-election and under the Code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Currently, the non-executive director and three independent non-executive directors are not appointed for a specific term 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. In addition, under the provisions of the bye-laws of the Company, the Chairman of the Board and/or the Managing Director of the Company are not subject to retirement by rotation or be taken into account in determining the number of directors to retire each year. Finally, new directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments and the directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years.

The Company will review the current bye-laws as and when it becomes appropriate in future.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding directors’ securities transactions.

Having made specific enquiry of all directors of the Company, they have complied with the required standard set out in the Model code for the period.

By order of the Board
Law Fong
CHAIRMAN

Hong Kong, 26 March 2008