

# PALADIN LIMITED

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

## INTERIM REPORT

# 2008

**For the six months ended 31 December 2008**

# MANAGEMENT DISCUSSION AND ANALYSIS

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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”), property investment and general and indent 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 12 apartment units have been sold in previous years. 1 apartment unit and 1 car park were sold for approximately HK\$77 million for the six months ended 31 December 2008.

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\$4 million for the six months ended 31 December 2008.

### General and indent trading

The management of the Company is currently focusing the resources of the Group on the development and marketing of the Peak Road Project. As a result, the turnover in this sector was only approximately HK\$39,000 for the six months ended 31 December 2008.

### Disposal of leasehold properties

In August 2008, the Group entered into an agreement to sell part of the office of the Group at a consideration of approximately HK\$176 million. The Group was recognised a gain of disposal of approximately HK\$100 million. The transaction significantly improved the Group’s financial position.

### Research and development

Sensors Integration Technology Limited, a wholly-owned subsidiary of the Group has planned to conduct research and development of digital camera, camcorder, surveillance, video capturing and processing technology. The plan is on early stage and did not generate any revenue to Group at this moment.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2008, net current assets of the Group were approximately HK\$591 million. The current ratio was 2.44. The pledged bank deposits were approximately HK\$21 million.

As at 31 December 2008, the Group has outstanding borrowings of approximately HK\$1,212 million comprising (i) bank overdraft and secured bank loans of approximately HK\$1,014 million, (ii) other loans and amounts due to directors of subsidiaries of approximately HK\$50 million and (iii) other payables and accrued charges of approximately HK\$148 million. The bank borrowings are on floating interest rates basis.

The majority of the Group's assets and borrowings are denominated either in Hong Kong dollars or US dollars thereby avoiding exposure to undesirable exchange rate fluctuations. In view of the stability of the exchange rate of HK dollars and US dollars, the directors consider that the Group has no significant exposure to exchange fluctuation and does not pledge against foreign exchange risk.

The Group's bank loans and other loans were secured by investment properties, properties held for sale and bank deposits of approximately HK\$1,001 million.

The directors 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 2008, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2008, the Group had no material investment.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed a total of 102 employees. They were remunerated according to market conditions.

## CONTINGENT LIABILITIES

As at 31 December 2008, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claim was approximately HK\$41 million. 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 2008.

# DIRECTOR REPORT

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2008, 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%

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

Name of director	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares 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/> 11,599,014	<hr/> 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.

## DIRECTOR REPORT (Cont'd)

Save as disclosed above, as at 31 December 2008, 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.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, 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%

*Note:* Five Star Investments Limited is owned as to 67% by Oung Chin Liang Fung, grandmother of Oung Shih Hua, James, and 33% by Lilian Oung, mother of Chen Te Kuang Mike.

Other than as disclosed above, as at 31 December 2008, 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.

### **DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE**

In accordance with the disclosure requirements of Rules 13.18 and 13.21 of The Rules Governing The Listing of Securities on the Stock Exchange (the “Listing Rules”), the following disclosure is included in respect of the Group’s loan agreement, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the loan agreement entered into between the Group and a bank in June 2006 relating to a 300-month loan facility up to HK\$550 million, a default event would arise if Five Star ceases to be the beneficial owner of at least 50.5% (in aggregate) of the issued share capital of the Company and the issued convertible redeemable preference shares of the Company.

### **AUDIT COMMITTEE**

The interim financial report of the Group for the six months ended 31 December 2008 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, 24 March 2009

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2008

		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2008</b>	2007
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited and restated)</i>
Turnover	4	<b>81,699</b>	1,137
Cost of sales		<b>(37,151)</b>	–
		<hr/>	<hr/>
Gross profit		<b>44,548</b>	1,137
Other income		<b>4,212</b>	4,249
Administrative expenses		<b>(30,272)</b>	(27,759)
Gain on disposal of property, plant and equipment		<b>100,420</b>	–
Gain (loss) arising from change in fair value of option derivatives		<b>25,782</b>	(10,065)
(Loss) gain arising on change in fair value of investment properties		<b>(64,600)</b>	38,500
Finance costs	5	<b>(21,990)</b>	(33,730)
		<hr/>	<hr/>
Profit (loss) before taxation		<b>58,100</b>	(27,668)
Taxation credit (charge)	6	<b>10,659</b>	(6,737)
		<hr/>	<hr/>
Profit (loss) for the period attributable to equity holders of the Company		<b>68,759</b>	(34,405)
		<hr/> <hr/>	<hr/> <hr/>
Earnings (loss) per share	7		
Basic		<b>12.91 HK cents</b>	(6.46) HK cents
		<hr/> <hr/>	<hr/> <hr/>



# CONDENSED CONSOLIDATED BALANCE SHEET

For 31 December 2008

	NOTES	31.12.2008 <i>HK\$'000</i> <i>(Unaudited)</i>	30.6.2008 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Investment properties	9	<b>151,000</b>	215,600
Property, plant and equipment	10	<b>88,200</b>	163,567
Available-for-sale investments		<b>7,500</b>	10,500
		<hr/> <b>246,700</b> <hr/>	<hr/> 389,667 <hr/>
Current assets			
Properties held for sale	11	<b>845,161</b>	882,313
Trade and other receivables, deposits and prepayments	12	<b>69,415</b>	97,540
Pledged bank deposits		<b>21,271</b>	24,984
Bank balances and cash		<b>64,659</b>	59,511
		<hr/> <b>1,000,506</b> <hr/>	<hr/> 1,064,348 <hr/>
Current liabilities			
Other payables and accrued charges		<b>148,177</b>	135,183
Amount due to a director of subsidiaries	13	<b>8,448</b>	68,287
Taxation payable		<b>345</b>	345
Bank overdrafts		<b>54,659</b>	51,198
Secured bank borrowings – amount due within one year	14	<b>138,058</b>	176,418
Other loans – amount due within one year	15	<b>42,000</b>	46,889
Option derivatives	16	<b>17,918</b>	43,700
		<hr/> <b>409,605</b> <hr/>	<hr/> 522,020 <hr/>
Net current assets		<hr/> <b>590,901</b> <hr/>	<hr/> 542,328 <hr/>
Total assets less current liabilities		<hr/> <b>837,601</b> <hr/>	<hr/> 931,995 <hr/>

# CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

For 31 December 2008

	NOTES	31.12.2008 HK\$'000 (Unaudited)	30.6.2008 HK\$'000 (Audited)
Capital and reserves			
Share capital	17	5,327	5,327
Reserves		(17,955)	(81,598)
		<u>(12,628)</u>	<u>(76,271)</u>
Non-current liabilities			
Secured bank borrowings – amount due after one year	14	821,728	909,883
Other loans – amount due after one year	15	–	60,674
Convertible redeemable preference shares	18	22,271	20,820
Deferred tax liabilities		6,230	16,889
		<u>850,229</u>	<u>1,008,266</u>
		<u><b>837,601</b></u>	<u><b>931,995</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 July 2007 (audited)	5,312	689	25,217	-	(3,088)	1,300	(78,164)	(48,734)
Change in fair value of available- for-sale investment and total income recognised directly in equity	-	-	-	-	-	1,700	-	1,700
Loss for the year	-	-	-	-	-	-	(51,108)	(51,108)
Total recognized income and expense for the year	-	-	-	-	-	1,700	(51,108)	(49,408)
Transfer from liability component of convertible redeemable preference shares (note 18)	-	-	-	21,766	-	-	-	21,766
Issue of shares on conversion of convertible redeemable preference shares	15	360	(270)	-	-	-	-	105
At 30 June 2008 and 1 July 2008 (audited)	5,327	1,049	24,947	21,766	(3,088)	3,000	(129,272)	(76,271)
Change in fair value of available for sale investment	-	-	-	-	-	(3,000)	-	(3,000)
Exchange differences arising on translation of foreign operations	-	-	-	-	(2,116)	-	-	(2,116)
Total expense recognised directly in equity	-	-	-	-	(2,116)	(3,000)	-	(5,116)
Profit for the period and total recognised income for the period	-	-	-	-	-	-	68,759	68,759
At 31 December 2008 (unaudited)	5,327	1,049	24,947	21,766	(5,204)	-	(60,513)	(12,628)

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

For the six months ended 31 December 2008

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 July 2007 (audited)	5,312	689	25,217	-	(3,088)	1,300	(78,164)	(48,734)
Loss for the period and total recognised expense for the period	-	-	-	-	-	-	(34,405)	(34,405)
Transfer from liability component of convertible redeemable preference shares (note 18)	-	-	-	21,766	-	-	-	21,766
Issue of convertible redeemable preference shares	15	360	(270)	-	-	-	-	105
At 31 December 2007 (unaudited)	<u>5,327</u>	<u>1,049</u>	<u>24,947</u>	<u>21,766</u>	<u>(3,088)</u>	<u>1,300</u>	<u>(112,569)</u>	<u>(61,268)</u>

*Notes:*

- (a) The capital reserve represents the equity component of convertible redeemable preference shares issued during the year ended 30 June 2007.
- (b) The other reserve represents the amount transferred from liability component of convertible redeemable preference shares upon the alteration of the terms of the existing convertible redeemable preferences shares during the year ended 30 June 2008.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

	Six months ended	
	31 December	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash from (used in) operating activities	<b>98,673</b>	(104,124)
Investing activities		
Proceeds from disposal of property, plant and equipment	<b>176,376</b>	–
Decrease in pledged bank deposits	<b>3,713</b>	1,278
Other investing activities	<b>(2,508)</b>	2,281
Net cash from investing activities	<b>177,581</b>	3,559
Financing activities		
Bank borrowings raised	<b>100,435</b>	303,083
Repayment of bank borrowings	<b>(226,950)</b>	(107,923)
(Repayment of) advance from other loans	<b>(65,563)</b>	15,985
Repayment of amount due to a director of subsidiaries	<b>(59,839)</b>	(24,098)
Interest paid	<b>(20,539)</b>	(32,461)
Other financing activities	–	27,654
Net cash (used in) from financing activities	<b>(272,456)</b>	182,240
Net increase in cash and cash equivalents	<b>3,798</b>	81,675
Cash and cash equivalents at beginning of the period	<b>8,313</b>	12,559
Effect of foreign exchange rate changes	<b>(2,111)</b>	–
Cash and cash equivalents at end of the period	<b>10,000</b>	94,234
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	<b>64,659</b>	94,234
Bank overdrafts	<b>(54,659)</b>	–
	<b>10,000</b>	94,234

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2008

## 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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or 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 financial statements for the year ended 30 June 2008.

In the current interim period, the Group has applied amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effect for the Group’s financial year beginning on 1 July 2008.

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 Company has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1</sup>
HKAS 1 (Revised)	Presentation of financial statements <sup>2</sup>
HKAS 23 (Revised)	Borrowing costs <sup>2</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>3</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>2</sup>
HKAS 39 (Amendment)	Eligible hedged items <sup>3</sup>
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity of associate <sup>2</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>2</sup>
HKFRS 3 (Revised)	Business combinations <sup>3</sup>
HKFRS 7 (Amendments)	Improving disclosures about financial instruments <sup>2</sup>
HKFRS 8	Operating segments <sup>2</sup>

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

For the six months ended 31 December 2008

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HK(IFRIC) – INT 9 & HKAS 39 (Amendments)	Embedded derivatives <sup>4</sup>
HK(IFRIC) – INT 15	Agreements for the construction of real estate <sup>2</sup>
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation <sup>5</sup>
HK(IFRIC) – INT 17	Distributions of non-cash assets to owners <sup>3</sup>
HK(IFRIC) – INT 18	Transfer of assets from customers <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>4</sup> Effective for annual periods ending on or after 30 June 2009.

<sup>5</sup> Effective for annual periods beginning on or after 1 October 2008.

<sup>6</sup> Effective for transfers on or after 1 July 2009.

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Improvement to HKFRSs requires property being constructed or developed for future use as investment property to classify as investment property for annual periods beginning on or after 1 July 2009. The directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

## 3. CHANGE IN PRESENTATION

During the year ended 30 June 2008, the Group has started to engage in providing service for indent trading. In the condensed consolidated financial statements of the Group for the six months ended 31 December 2007, the Group reported turnover of HK\$214,041,000 and cost of sales of HK\$213,900,000 arising from the services rendered in indent trading.

The directors of the Company had re-evaluated the arrangement with its customers to determine whether to recognise the Group's turnover from services rendered in indent trading on a gross basis or net of cost of purchases. The Group has reconsidered the contractual relationship with the customers and the inventory risk of the Group to assess whether the Group acts as a principal or agent when providing the service. After consideration of the above factors, the directors of the Company considered that it is more appropriate to report the income from indent trading on a "net basis". As a result, the effect of this change in presentation was to decrease the Group's turnover and cost of sales for the six months ended 31 December 2007 by HK\$213,900,000, representing the cost of purchases during the six months ended 31 December 2007 and this change in presentation has been consistently applied in the consolidated financial statements of the Group for the year ended 30 June 2008. There is no effect on the results of the Group for the six months ended 31 December 2007 and 31 December 2008.

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

For the six months ended 31 December 2008

## 4. SEGMENT INFORMATION

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

Segment information about these businesses is presented below:

### Six months ended 31 December 2008

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	General and indent trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>				
External sales	77,462	4,198	39	81,699
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESULT</b>				
Segment result	32,856	(62,864)	(5,325)	(35,333)
Gain on disposal of property, plant and equipment				100,420
Gain arising from change in fair value of option derivatives				25,782
Unallocated corporate income				313
Unallocated corporate expenses				(11,092)
Finance costs				(21,990)
				<u>          </u>
Profit before taxation				58,100
Taxation credit				10,659
				<u>          </u>
Profit for the period				<u>68,759</u>



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

For the six months ended 31 December 2008

## 4. SEGMENT INFORMATION (Cont'd)

Six months ended 31 December 2007 (Restated)

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	General and indent trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>				
External sales	–	996	141	1,137
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>RESULT</b>				
Segment result	(11,375)	35,516	(835)	23,306
Loss arising from change in fair value of option derivatives				(10,065)
Unallocated corporate income				2,275
Unallocated corporate expenses				(9,454)
Finance costs				(33,730)
				<u>          </u>
Loss before taxation				(27,668)
Taxation charge				(6,737)
				<u>          </u>
Loss for the period				(34,405)
				<u>          </u>

More than 90% of the Group's turnover for the six months ended 31 December 2008 and 2007 was attributable to the operations carried out in Hong Kong.

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

For the six months ended 31 December 2008

## 5. FINANCE COSTS

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Interest on bank borrowings:		
– wholly repayable within five years	4,650	4,725
– not wholly repayable within five years	15,294	24,424
Interest on convertible redeemable preference shares (note 18)	1,451	1,269
Interest on other loans	595	3,312
	<u>21,990</u>	<u>33,730</u>

## 6. TAXATION

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong Profits Tax for the period	–	–
Deferred taxation credit (charge)	10,659	(6,737)
	<u>10,659</u>	<u>(6,737)</u>
Tax credit (charge) attributable to the Company and its subsidiaries	<u>10,659</u>	<u>(6,737)</u>

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the proposed reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008/2009.

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

## 6. TAXATION (Cont'd)

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

In August 2007 and January 2009, a subsidiary of the Company received the Assessment Demanding Final Tax (the "Assessments") for the year of assessment of 2006/2007 and 2007/2008 from Hong Kong Inland Revenue Department ("IRD") respectively. By issuing the Assessments, the IRD disagreed the basis adopted by this subsidiary for computation of Hong Kong Profits Tax liability. In addition, the IRD 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. On 28 February 2008, the IRD has issued an enquiry letter to the Group and replies have been submitted by the Group to the IRD on 25 April 2008 and 25 July 2008 and 27 February 2009.

The Group has lodged objections against the Assessments received from IRD in September 2007 and January 2009 respectively. The IRD has agreed to holdover the tax in dispute of approximately HK\$156,053,000 unconditionally and the remaining of approximately HK\$73,321,000 on the condition that a Tax Reserve Certificate ("TRC") of the same amount to be purchased. The Group has further submitted a letter to the IRD on 27 February 2009 offering to submit a bank guarantee instead of purchase a TRC for the amount in dispute of approximately HK\$73,321,000 for the year of assessment 2007/08.

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 the previous years could be used to offset with the assessable profits for both periods. As a result, no provision for Hong Kong Profits Tax has been made for both periods.



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

For the six months ended 31 December 2008

## 9. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 31 December 2008 has been arrived at on the basis of a valuation carried out on that day by Messrs. Savills Valuation and Professional Services Limited, the 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 2008, the loss arising on change in fair value of the investment properties of approximately HK\$64,600,000 (1.7.2007 to 31.12.2007: the gain arising on change in fair value of the investment properties of approximately HK\$38,500,000) has been recognised in the condensed consolidated income statement.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$2,202,000 (1.7.2007 to 31.12.2007: HK\$2,688,000) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK\$2,821,000 (1.7.2007 to 31.12.2007: nil) on additions of property, plant and equipment and the gain on disposal of property, plant and equipment for the six months ended 31 December 2008 amounted to HK\$100,420,000 (1.7.2007 to 31.12.2007: nil) has been recognised in the condensed consolidated income statement.

## 11. PROPERTIES HELD FOR SALE

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of properties held for sales	<b>845,161</b>	882,313

At 31 December 2008 and 30 June 2008, the properties held for sale are stated at cost.

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

For the six months ended 31 December 2008

## 12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 120 days (30.6.2008: 120 days) to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	<b>25,592</b>	13,649
61 – 120 days	<b>12,322</b>	53,922
Over 121 days	<b>12,007</b>	25,702
	<hr/>	<hr/>
	<b>49,921</b>	93,273
	<hr/> <hr/>	<hr/> <hr/>

## 13. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

The amount represents due to Lilian Oung, who is one of the shareholders of Five Star Investment Limited (“Five Star”), the controlling shareholder of the Company. The amount is unsecured, non-interest bearing and repayable on demand.

## 14. SECURED BANK BORROWINGS

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mortgage loans	<b>859,351</b>	1,018,730
Trust receipt loans	<b>25,435</b>	67,571
Bank loan	<b>75,000</b>	–
	<hr/>	<hr/>
	<b>959,786</b>	1,086,301
Less: Amount due within one year shown under current liabilities	<b>(138,058)</b>	(176,418)
	<hr/>	<hr/>
Amount due after one year	<b>821,728</b>	909,883
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended 31 December 2008

## 14. SECURED BANK BORROWINGS (Cont'd)

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

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>138,058</b>	176,418
In more than one year but not more than two years	<b>38,219</b>	34,218
In more than two years but not more than three years	<b>38,336</b>	34,218
In more than three years but not more than four years	<b>38,351</b>	34,218
In more than four years but not more than five years	<b>38,351</b>	112,694
Over five years	<b>668,471</b>	694,535
	<b>959,786</b>	1,086,301

At 30 June 2008, 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 carries interest at a 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 and carries 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 carries 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 carries 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 carries 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 carries interest at a rate of 1.25% per annum above Hong Kong Interbank Offered Rate ("HIBOR"); (vii) a mortgage loan with a principal amount of HK\$61,100,000 that shall be repayable by 240 monthly instalments and carries interest at a rate of 1.25% per annum above HIBOR; (viii) a mortgage loan with a principle amount of HK\$32,000,000 that shall be repayable by 300 monthly instalments and carries interest at a rate of 2.5% per annum below the Hong Kong dollars Prime Rate; (ix) a mortgage loan with a principal amount of HK\$110,000,000 that shall be repayable by 60 monthly instalments and carries interest at a rate of 1.2% per annum over HIBOR; (x) a mortgage loan with a principal amount HK\$100,000,000 that shall be repayable by 234 monthly instalments and carries interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate; and (xi) a short-term loan with a principal amount of HK\$75,000,000 that shall be repayable within three months and carry interest at a rate of 2.25% per annum over HIBOR.

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

For the six months ended 31 December 2008

## 14. SECURED BANK BORROWINGS (Cont'd)

During the period ended 31 December 2008, the Group obtained a short-term loan with a principal amount of HK\$75,000,000 that shall be repayable within three months and carries interest at a rate of 2.25% per annum over HIBOR.

The range of effective interest rates of the Group's bank borrowings were 2.29% to 6.875% per annum for the six months ended 31 December 2008 (1.7.2007 to 31.12.2007: 3.45% 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.

## 15. OTHER LOANS

	<b>31.12.2008</b>	30.6.2008
	<b>HK\$'000</b>	HK\$'000
Other loans from:		
– a third party ( <i>Note</i> )	<b>42,000</b>	107,563
Less: Amount due within one year shown under current liabilities	<b>(42,000)</b>	(46,889)
	<hr/>	<hr/>
Amount due after one year	–	60,674
	<hr/> <hr/>	<hr/> <hr/>

*Note:*

The loans are owed to Fine Chiffon Corporation Limited ("Fine Chiffon"), an independent third party. At 31 December 2008, the loan is a non-interest bearing loan of approximately HK\$42,000,000 from Fine Chiffon. At 30 June 2008, the loans are comprised of (i) an interest bearing instalment loan of approximately HK\$65,563,000 and (ii) a non-interest bearing loan of approximately HK\$42,000,000 from Fine Chiffon. The outstanding interest bearing instalment loan was repaid in full during the six months ended 31 December 2008.

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 30 June 2008, the outstanding interest bearing instalment loan amounted to approximately HK\$65,563,000 (31.12.2008: nil).



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

For the six months ended 31 December 2008

## 15. OTHER LOANS (Cont'd)

Notes: (Cont'd)

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 2008, the outstanding non-interest bearing loan amounted to approximately HK\$42,000,000 (30.6.2008: 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.

## 16. OPTION DERIVATIVES

	<b>31.12.2008</b>	30.6.2008
	<b>HK\$'000</b>	HK\$'000
Option derivatives – fair value	<b>17,918</b>	43,700

As described in note 15, 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 15).

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 2008, the gain arising from change in fair value of option derivatives amounted to HK\$25,782,000 (1.7.2007 to 31.12.2007: the loss arising from change in fair value of option derivatives amounted to HK\$10,065,000) has been recognised in the condensed consolidated financial statements.

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

For the six months ended 31 December 2008

## 16. OPTION DERIVATIVES (Cont'd)

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

	31.12.2008	30.6.2008
Exercise price	HK\$32,000,000	HK\$32,000,000
Expected volatility	38%	11.8%
Expected life	0.26 years	1 years
Risk-free rate	5.2%	1.7%
Fair value of the leasehold properties at the balance sheet date	HK\$50,007,000	HK\$379,300,000
Fair value of option at the balance sheet date	HK\$17,918,000	HK\$43,280,000

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

	31.12.2008	30.6.2008
Exercise price	HK\$10,000,000	HK\$10,000,000
Expected volatility	38%	11.8%
Expected life	0.26 years	1 years
Risk-free rate	5.2%	1.7%
Fair value of option at the balance sheet date	Nil	HK\$420,000

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% (30.6.2008: 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.

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

For the six months ended 31 December 2008

## 17. SHARE CAPITAL

	Nominal value per share <i>HK\$</i>	Numbers of shares	Amount <i>HK\$'000</i>
Authorised:			
At 1 July 2007, 30 June 2008 and 31 December 2008	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2007	0.01	531,143,992	5,312
Issue of shares on conversion of convertible redeemable preference shares		1,500,000	15
At 30 June 2008 and 31 December 2008	0.01	532,643,992	5,327

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

## 18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value <i>HK\$'000</i>
Authorised:		
At 1 July 2007	270,000,000	2,700
Increase in authorised convertible redeemable preference shares	1,000,000,000	10,000
At 30 June 2008 and 31 December 2008	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2007	261,263,430	2,612
Conversion of issued convertible redeemable preference shares into ordinary shares	(1,500,000)	(15)
At 30 June 2008 and 31 December 2008	259,763,430	2,597

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

For the six months ended 31 December 2008

## 18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

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

Movement of the convertible redeemable preference shares are as follows:

	<b>Liability component</b>	<b>Equity component</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2007	39,738	25,217	64,955
Transferred to other reserve ( <i>Note</i> )	(21,766)	–	(21,766)
Conversion of convertible redeemable preference shares	(105)	(270)	(375)
Interest charged for the year	2,953	–	2,953
	<hr/>	<hr/>	<hr/>
At 30 June 2008	20,820	24,947	45,767
Interest charged for the period	1,451	–	1,451
	<hr/>	<hr/>	<hr/>
At 31 December 2008	<u>22,271</u>	<u>24,947</u>	<u>47,218</u>

*Note:*

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

(i) *Cumulative dividend*

The right to receive a 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.

## 18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

*Note: (Cont'd)*

(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\$21,766,000 and, in turn the amount was transferred to other reserve at 3 July 2007.

The principal terms of the convertible redeemable preference shares at 31 December 2008 and 30 June 2008 include the following:

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

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

(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 dividend*

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.

## 18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

*Note: (Cont'd)*

*(iii) Cumulative dividend (Cont'd)*

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.

*(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.

*(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.

## 18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

*Note: (Cont'd)*

(vii) *Further issues*

New issues of convertible redeemable preference shares has be 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 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

The Group had the following outstanding litigations as at 31 December 2008 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) On 26 July 2005, Brightland Corporation Limited issued a writ against Banhart under HCA 1445 of 2005 claiming various declarations, damages and other relief in relation to the sale and purchase of the Group's leasehold property situated at Unit C on the 45th Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong (the "Office Property"). This action was consolidated with the action mentioned in paragraph (b) below on 9 June 2006.
- (b) On 27 February 2006, Crowning Success Limited, a sub-purchaser of the Office Property issued a summons against Banhart for the purpose of joining Banhart as the second defendant in its action against Brightland Corporation Limited under HCA 1540 of 2005. 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 parties have already filed their pleadings.

## 19. CONTINGENT LIABILITIES (Cont'd)

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 Office 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 Office 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 was dismissed by the court on 22 April 2008 with costs to the Vendor. Such costs will be taxed by the Court on 13 October 2008. The matter had already been set down for trial. The trial had been fixed from 12 March 2009 to 20 March 2009 in the high court and the judgement will be handed down within 2 weeks.

- (c) On 17 May 2006, Chinese Regency Limited (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood Limited (“Holyrood”), a subsidiary of the Company, 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 is completed and the litigation is still ongoing. As the amount of damages and claims are to be assessed, no such details are available.
- (d) On 1 June 2007, Gateway International Development Limited (“Gateway”) (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, breach of the Deed of Mutual Covenant and nuisance on the development. Gateway has agreed to provide further and better particulars of the claims until 7 April 2009. Thereafter, it is anticipated that Holyrood may need to seek leave from the court to amend its defences.

Gateway and Holyrood have also attended a checklist hearing on 18 March 2009 and the master has set the timetable in respect of the hearing and the adjourned hearing on 23 June 2009. It is anticipated for the present purposes that the trial of these actions may take place in the second quarter of calendar 2010. As the amount of damages and claims are to be assessed, no such details are available.

- (e) On 1 June 2007, Sun Crown Trading Limited (“Sun Crown”) (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, breach of the Deed of Mutual Covenant and nuisance on the development. Sun Crown has agreed to provide further and better particulars of the claims until 7 April 2009. Thereafter, it is anticipated that Holyrood may need to seek leave from the court to amend its defences.



## 19. CONTINGENT LIABILITIES (Cont'd)

Sun Crown and Holywood have also attended a checklist hearing on 18 March 2009 and the master has set the timetable in respect of the hearing and the adjourned hearing on 23 June 2009. It is anticipated for the present purposes that the trial of these actions may take place in the second quarter of calendar 2010. As the amount of damages and claims are to be assessed, no such details are available.

- (f) On 1 June 2007, Trillion Holdings Limited (“Trillion”) (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, breach of the Deed of Mutual Covenant and nuisance on the development. Trillion has agreed to provide further and better particulars of the claims until 7 April 2009. Thereafter, it is anticipated that Holyrood may need to seek leave from the court to amend its defences.

Trillion and Holywood have also attended a checklist hearing on 18 March 2009 and the master has set the timetable in respect of the hearing and the adjourned hearing on 23 June 2009. It is anticipated for the present purposes that the trial of these actions may take place in the second quarter of calendar 2010. As the amount of damages and claims are to be assessed, no such details are available.

- (g) On 22 January 2009, Woon Lee (HK) Company Limited (“Woon Lee”) issued a writ against Holyrood under HCCT 4 of 2009 in relation to outstanding balances on decoration costs of residential development at Inland Lot No.7878, Nos. 10-12 Peak Road, Hong Kong, claiming against Holyrood a total sum of HK\$15,894,063 together with interest thereon at the rate of 8.192% per annum from 22 January 2009 to the date of judgment and thereafter at the judgment rate until full payment, and fixed costs of HK\$1,550. Final and interlocutory judgement was entered by Woon Lee against Holyrood on 12 February 2009. On 25 February 2009, Holyrood issued a summons to apply for an order to set aside the said judgement and have filed affirmation and expert report in support. The exchange of affirmations and pleading is underway.

## 19. CONTINGENT LIABILITIES (Cont'd)

- (h) On 12 March 2009, two individuals, Ms. Feng Jing (“Feng”) and Mr. Zhao Zhi Jun (“Zhao”) who were the purchasers of World Modern International Limited (“World Modern”), a subsidiary of the Company, in respect of respectively Flat 8A and 8B of Block A1 and the car parking spaces Nos. 26 and 27 of the Peak Road Project (“the Properties”) who have rescinded their agreements to purchase their respective unit of the Properties purportedly on the basis of certain objection on the title of the Properties, have issued proceedings against World Modern under High Court Action No. 716 of 2009.

It is stated in the writ of summons dated 12 March 2009 that Feng and Zhao to this action seek:

- (a) a declaration from the court that Feng and Zhao have effectively rescinded the agreement for sale and purchase of their respective units and car parking spaces;
- (b) damages;
- (c) repayment of the sums of HK\$12,252,072 and HK\$12,747,928 respectively, being the total deposits and part payments of the purchase prices; and
- (d) a declaration that Feng and Zhao, each of them have a lien over the properties in question for the outstanding payments owing from World Modern including damages, costs and interests.

In brief, Feng and Zhao seek the repayment of the principal amounts of HK\$12,252,072 and HK\$12,747,928 respectively (being the deposits and part payments of purchase price) on the grounds that they have effectively rescinded the agreement for the sale and purchase of the Properties.

Other than the general nature of the claims as described above and the fact that this action is very likely prompted by the drop in property values, World Modern would also seek to counterclaim for damages resulting from Feng and Zhao’s breach of their obligation to complete their purchase of the Properties. The litigation is still ongoing, as the amount of damages and claims are to be assessed, no such details are available.

In addition, the Group had given guarantee of HK\$80,000,000 (31.12.2008: nil) to a bank to secure the credit facilities granted to Fine Chiffon as at 30 June 2008.

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

For the six months ended 31 December 2008

## 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.

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held for sale	<b>828,986</b>	865,137
Investment properties	<b>151,000</b>	215,600
Bank deposits	<b>21,271</b>	24,984
Leasehold properties	–	160,228
	<u><b>1,001,257</b></u>	<u>1,265,949</u>

## 21. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

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

	<b>31.12.2008</b>	30.6.2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit facilities granted to the Group	<b>963,824</b>	979,743

- (b) Details of the amount due to a director of subsidiaries are set out in note 13.