PALADIN LIMITED

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

INTERIM REPORT

2010

For the six months ended 31 December 2010

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 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. 14 apartment units have been sold in previous years. No apartment was sold for the six months ended 31 December 2010.

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.

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, turnover in this sector for was only HK$1 million the six months ended 31 December 2010.

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 2010, net current liabilities of the Group were approximately HK$381 million. The current ratio was 0.68. The pledged bank deposits were approximately HK$21 million.

As at 31 December 2010, the Group has outstanding borrowings of approximately HK$1,107 million comprising (i) bank overdraft and secured bank loans of approximately HK$945 million, (ii) tax payables of approximately HK$43 million, (iii) provisions for litigations of approximately HK$34 million and (iv) other payables and bills payables of approximately HK$85 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 were secured by investment properties, properties held for sale, leasehold properties and bank deposits of approximately HK$1,081 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 2010, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2010, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Group employed a total of 92 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2010, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK$40 million. In the opinion of the directors, the liabilities were remote and only a provision of approximately HK$34 million 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 2010.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2010, 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	0.93%
	Held by a controlled corporation *(Note)*	21,035,000	3.92%
		26,035,000	4.85%
Oung Shih Hua, James	Beneficial owner	5,000,000	0.93%

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	0.98%
	Held by a controlled corporation *(Note)*	9,099,014	3.56%
		11,599,014	4.54%
Oung Shih Hua, James	Beneficial owner	2,500,000	0.98%

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 2010, 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 2010, 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	49.86%

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	52.46%
Oung Da Ming	Beneficial owner	50,000,000	19.59%

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 2010, 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. In April 2010, the terms of loan was revised to 201 months with the facility up to HK$260 million after an early partial repayment of the loan.

AUDIT COMMITTEE

The interim financial report of the Group for the six months ended 31 December 2010 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.

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.

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, 23 February 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2010

	NOTES	Six months ended 31 December 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Turnover		**928**	–
Cost of sales		**–**	–
Gross profit		**928**	–
Other income		**8,125**	6,043
Administrative expenses		**(29,055)**	(25,651)
Research and development expenses		**(3,477)**	(6,307)
Loss arising from change in fair value of derivative financial instruments	16	**(9,720)**	(8,100)
Gain arising on change in fair value of investment properties	10	**24,000**	13,000
Finance costs	5	**(7,309)**	(13,240)
Loss before taxation		**(16,508)**	(34,255)
Taxation charge	6	**(3,960)**	(2,145)
Loss for the period attributable to equity holders of the Company	7	**(20,468)**	(36,400)
Other comprehensive (expenses) income			
Exchange difference arising on translation of foreign operations		**(468)**	128
Fair value loss on available-for-sale investments		**–**	(70)
Other comprehensive (expenses) income for the period		**(468)**	58
Total comprehensive expenses for the period		**(20,936)**	(36,342)
Loss per share	8		
Basic		**(3.81) HK cetns**	(6.82) HK cents

Condensed Consolidated Statement Of Financial Position

At 31 December 2010

	NOTES	**31.12.2010**	30.6.2010
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited and restated)*
Non-current assets			
Investment properties	10	**222,000**	198,000
Property, plant and equipment	11	**83,180**	84,987
Available-for-sale investments		**9,500**	9,500
Deposits for acquisition of property, plant and equipment		**1,049**	834
Pledged bank deposits		**21,247**	21,232
		336,976	314,553
Current assets			
Properties held for sale	12	**776,281**	776,281
Trade receivables, deposits and prepayments	13	**48,296**	34,516
Bank balances and cash		**2,692**	17,113
		827,269	827,910
Current liabilities			
Bills payable		**21,567**	1,718
Other payables and accrued charges		**63,565**	100,010
Amount due to a director of subsidiaries	14	**375**	9,516
Provision for litigations		**33,607**	28,274
Tax payables		**42,900**	43,400
Bank overdrafts		**54,745**	54,898
Secured bank borrowings – amount due within one year	15	**890,261**	842,027
Derivative financial instruments	16	**100,980**	91,260
		1,208,000	1,171,103
Net current liabilities		**(380,731)**	(343,193)
Total assets less current liabilities		**(43,755)**	(28,640)
Capital and reserves			
Share capital	17	**5,372**	5,372
Reserves		**(95,674)**	(74,738)
		(90,302)	(69,366)
Non-current liabilities			
Convertible redeemable preference shares	18	**28,602**	26,741
Deferred tax liabilities		**17,945**	13,985
		46,547	40,726
		(43,755)	(28,640)

Condensed Consolidated Statement Of Changes In Equity

For the six months ended 31 December 2010

	Attributable to owners of the Company							
	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$'000*	**Total** *HK$'000*
At 1 July 2009 (audited)	5,337	1,280	24,800	21,766	(4,560)	2,000	(98,923)	(48,300)
Loss for the year	–	–	–	–	–	–	(22,052)	(22,052)
Other comprehensive income for the year	–	–	–	–	643	–	–	643
Total comprehensive income (expenses) for the year	–	–	–	–	643	–	(22,052)	(21,409)
Issue of shares on conversion of convertible redeemable preference shares	35	846	(538)	–	–	–	–	343
At 30 June 2010 and 1 July 2010 (audited)	5,372	2,126	24,262	21,766	(3,917)	2,000	(120,975)	(69,366)
Loss for the period	–	–	–	–	–	–	(20,468)	(20,468)
Other comprehensive expenses for the period	–	–	–	–	(468)	–	–	(468)
Total comprehensive expense for the period	–	–	–	–	(468)	–	(20,468)	(20,936)
At 31 December 2010 (unaudited)	5,372	2,126	24,262	21,766	(4,385)	2,000	(141,443)	(90,302)
At 1 July 2009 (audited)	5,337	1,280	24,800	21,766	(4,560)	2,000	(98,923)	(48,300)
Loss for the period	–	–	–	–	–	–	(36,400)	(36,400)
Other comprehensive income (expenses) for the period	–	–	–	–	128	(70)	–	58
Total comprehensive income (expenses) for the period	–	–	–	–	128	(70)	(36,400)	(36,342)
Issue of shares on conversion of convertible redeemable preference shares	5	125	(79)	–	–	–	–	51
At 31 December 2009 (unaudited)	5,342	1,405	24,721	21,766	(4,432)	1,930	(135,323)	(84,591)

Notes:

(a) The capital reserve represents the equity component of convertible redeemable preference shares issued during both periods.

(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 Statement of Cash Flows

For the six months ended 31 December 2010

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(47,240)**	(15,426)
Investing activities		
Proceeds from disposal of property, plant and equipment	**30**	–
Increase in pledged bank deposits	**(15)**	(47)
Other investing activities	**(220)**	211
Net cash (used in) from investing activities	**(205)**	164
Financing activities		
Bank borrowing raised	**55,110**	–
Repayment of bank borrowings	**(6,876)**	(21,543)
Repayment of amount due to a director of subsidiaries	**(9,141)**	(11,147)
Interest paid	**(5,448)**	(11,590)
Net cash from (used in) financing activities	**33,645**	(44,280)
Net decrease in cash and cash equivalents	**(13,800)**	(59,542)
Cash and cash equivalents at beginning of the period	**(37,785)**	28,135
Effect of foreign exchange rate changes	**(468)**	106
Cash and cash equivalents at end of the period	**(52,053)**	(31,301)
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	**2,692**	23,754
Bank overdrafts	**(54,745)**	(55,055)
	(52,053)	(31,301)

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 (HKAS 34), Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the net current liabilities and net liabilities of the Group amounting to approximately HK$380,731,000 and HK$43,755,000 as at 31 December 2010 and the contingent liabilities for the outstanding litigation as disclosed in note 19.

Taking into account the available untilised bank credit facility of HK$87,860,000 (30 June 2010: HK$94,944,000) as at 31 December 2010 and the estimated proceeds from sales of developed properties, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. 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 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 2010.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA.

Except as described below, the application of the new or revised HKFRSs in the current period has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current period. HK INT 5 requires retrospective application. In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$700,103,000 have been reclassified from non-current liabilities to current liabilities as at 30 June 2010. As at 31 December 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$697,162,000 have been classified as current liabilities. The application of HK INT 5 has had no impact on the reported profit or loss for the current and prior years.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[2]
HKFRS 9	Financial instruments[3]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[4]
HKAS 24 (Revised)	Related party disclosures[5]
HK (IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[5]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2011.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 January 2011.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company (the "Directors") anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 are: (a) property development; (b) property investment and (c) indent trading of merchandise.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 31 December 2010

	Property development	**Property investment**	**Indent trading of merchandise**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
External sales	**–**	**–**	**928**	**928**
RESULT				
Segment result	**(8,844)**	**24,575**	**928**	**16,659**
Loss arising from change in fair value of derivative financial instruments				**(9,720)**
Unallocated corporate income				**65**
Unallocated corporate expenses				**(16,202)**
Finance costs				**(7,310)**
Loss before taxation				**(16,508)**
Taxation charge				**(3,960)**
Loss for the period				**(20,468)**

4. SEGMENT INFORMATION (Cont'd)

Six months ended 31 December 2009

	Property development *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
TURNOVER			
External sales	–	–	–
RESULT			
Segment result	(3,585)	12,901	9,316
Loss arising from change in fair value of derivative financial instruments			(8,100)
Unallocated corporate income			303
Unallocated corporate expenses			(22,534)
Finance costs			(13,240)
Loss before taxation			(34,255)
Taxation charge			(2,145)
Loss for the period			(36,400)

More than 90% of the Group's turnover for the six months ended 31 December 2010 and 2009 was attributable to the operations carried out in Hong Kong.

5. FINANCE COSTS

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**5,437**	10,194
Interest on convertible redeemable preference shares *(note 18)*	**1,861**	1,650
Interest on other loans	**11**	1,396
	7,309	13,240

6. TAXATION

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Hong Kong Profits Tax for the period	**–**	–
Deferred taxation charge	**(3,960)**	(2,145)
Tax charge attributable to the Company and its subsidiaries	**(3,960)**	(2,145)

No provision for Hong Kong Profits Tax had been made in both periods condensed consolidated financial statements as the Group had no assessable profit for both periods. The taxation represents deferred taxation charge for the period.

In August 2007, January 2009 and February 2010, a subsidiary of the Company received the Assessment Demanding Final Tax (the "Assessments") for the year of assessments of 2006/2007, 2007/2008 and 2008/2009 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 to 2005/2006 with aggregated amount of approximately HK$279,990,000 as at 31 December 2010.

6. TAXATION (Cont'd)

The Group has lodged objections against the Assessments received from IRD in September 2007, January 2009 and March 2010 respectively. The IRD has agreed to holdover the tax in dispute of approximately HK$136,154,000 unconditionally during the year ended 30 June 2010. The IRD has advised that the case is submitted to the commissioner for determination which means the profits assessed could be adjusted upward or downward depending on the exact basis and calculation that are to be adopted in the determination.

As at 30 June 2009, the directors of the Company considered that, the Group had grounds to appeal against the above determinations. Also, the amount and timing of potential tax liabilities, if any, could not be readily and reliably ascertained at that stage due to insufficient information. As a result, except for the tax provision made amounting to HK$1,000,000, no provision for Hong Kong Profits Tax has been made in 2009. During the year ended 30 June 2010, the Group has submitted further information to the IRD and IRD has issued revised assessment for the year 2008/2009. As the directors of the Company have now obtained more relevant information, a further tax provision of HK$43,400,000 has been made in the year ended 30 June 2010. In any event, the directors of the Company reiterated that they considered that the Group had grounds to appeal against the above assessments. There is no further update at the end of reporting period.

7. LOSS FOR THE PERIOD

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Loss for the period has been arrived at after (charging) crediting:		
Depreciation	**(3,623)**	(1,813)
Interest income	**65**	303

8. LOSS PER SHARE

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

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Loss:		
Loss for the period for the purpose of calculating basic loss per share	**(20,468)**	(36,400)

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	**537,131,492**	533,948,301

The calculation of diluted loss per share for both periods had not been disclosed as the exercise of the Company's outstanding convertible redeemable preference shares would reduce the loss per share for both periods.

9. DIVIDEND

No dividends were paid, declared or proposed during the period. The directors do not recommend the payment of an interim dividend for both periods.

10. INVESTMENT PROPERTIES

The fair value of the Group's investment properties as at 31 December 2010 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 2010, the gain arising on change in fair value of the investment properties of approximately HK$24,000,000 (1.7.2009 to 31.12.2009: the gain arising on change in fair value of the investment properties of approximately HK$13,000,000) has been recognised in the condensed consolidated statement of comprehensive income.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK$3,623,000 (1.7.2009 to 31.12.2009: HK$1,813,000) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK$70,000 (1.7.2009 to 31.12.2009: HK$92,000) on additions of property, plant and equipment.

12. PROPERTIES HELD FOR SALE

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Carrying amount of properties held for sale	**776,281**	776,281

At 31 December 2010 and 30 June 2010, the properties held for sale are stated at cost.

13. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 120 days (30.6.2010: 120 days) to its trade customers. The following is an aged analysis of trade receivables at the statement of financial position date:

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
0 to 60 days	**30,959**	1,766
61 to 120 days	**–**	–
Over 121 days to 1 year	**–**	–
Over 1 year	**–**	10,275
	30,959	12,041

The Groups' management closely monitors the credit quality of receivables of service rendered in indent trading and considers the receivables that are neither past due nor impaired to be of a good credit quality. Based on the payment pattern of the customers of the Group, all of the receivables of service rendered in indent trading as at 30 June 2010 which are past due but not impaired are generally collectable.

14. AMOUNT DUE TO A DIRECTOR OF SUBSIDIARIES

As at 31 December 2010, 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.

15. SECURED BANK BORROWINGS

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Mortgage loans	**800,261**	767,027
Bank loan	**90,000**	75,000
Amount due within one year shown under current liabilities	**(890,261)**	(842,027)

At the end of the reporting period, the Group's bank borrowings are repayable as follows:

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Within one year	**193,099**	141,924
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**697,162**	700,103
Amounts due within one year shown under current liabilities	**890,261**	842,027

* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

15. SECURED BANK BORROWINGS (Cont'd)

At 31 December 2010, the mortgage loans comprised (i) a mortgage loan with a principal amount of HK$260,000,000 that shall be repayable by 201 monthly instalments and carries interest at a rate of 1.2% per annum over one/three/six-month Hong Kong Interbank Offered Rate (HIBOR); (ii) a mortgage loan with a principal amount of HK$48,000,000 that shall be repayable by 240 monthly instalments and carries interest at a rate of 2.75% per annum below the Hong Kong Dollar Prime Rate; (iii) 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 Dollar 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 Dollar 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 Dollar Prime Rate; (vi) a mortgage loan with a principal amount of HK$62,000,000 that shall be repayable by 205 monthly instalments and carries interest at a rate of 1.25% per annum over HIBOR; and (vii) a mortgage loan with a principal amount of HK110,000,000 that shall be repayable by 59 monthly instalments and carries interest at a rate of 1.2% per annum over one-month HIBOR; (viii) a mortgage loan with a principal amounting to HK$29,600,000 that shall be repayable by 207 monthly instalments and carries interest at a rate of 2.25% per annum below Hong Kong Dollar Prime Rate; (ix) a mortgage loan with a principal amount HK$84,000,000 that shall be repayable by 181 monthly instalments and carries interest at a rate of 0.88% per annum over one-month HIBOR; (x) a mortgage loan with a principal amount HK$100,750,000 that shall be repayable by 37 monthly instalments and carries interest at a rate of 1.2% per annum over one-month HIBOR; (xi) a short-term loan with a principal amount of HK$60,000,000 that shall be repayable within three months and carry interest at a rate of 0.8% per annum over HIBOR; (xii) 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 and a short-term loan with a principal amount of HK$15,000,000 that shall be repayable within three months and carry interest at a rate of 2% per annum over one-month HIBOR.

The range of effective interest rates of the Group's bank borrowings were 0.86% to 3.05% per annum for the six months ended 31 December 2010 (1.7.2009 to 31.12.2009: 1.25% to 5.31%).

All bank borrowings are secured by certain apartments of the Group's properties held for sale and all of the Group's investment properties to the banks.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Derivative financial instruments – fair value	**100,980**	91,260

On 5 April 2006, Banhart Company Limited ("Banhart"), a subsidiary of the Company, entered into a loan agreement with Fine Chiffon Corporation Limited ("Fine Chiffon") to obtain a non-interest bearing loan facility of HK$42,000,000. The loan is unsecured, non-interest bearing and non-revolving in nature. The loan shall be repayable on or before 6 September 2008.

In addition, Banhart also granted two options to Fine Chiffon for purchasing (i) part of the Company's investment property at a consideration of HK$32,000,000 and (ii) 20% of the share capital of Banhart, at a consideration of HK$10,000,000, in substitution for the repayment of the outstanding non-interest bearing loan at the end of the loan period. Fine Chiffon is entitled to exercise the options at any time prior to the maturity date and the options are non-transferable.

On 6 September 2008, Fine Chiffon exercised the options. Accordingly, a derivative is recognised at the amount expected to be settled at the transfer date, which is estimated with reference to the market price of the underlying leasehold property. Upon the exercise of the two options, the loan from Fine Chiffon of HK$42,000,000 and the fair value of the two options of HK$43,700,000 at the exercise date were derecognised and became the initial cost of the derivative financial instruments. A fair value gain of HK$ 10,100,000 was recognised in profit or loss during the period from 6 September 2008 to 30 June 2009. During the year ended 30 June 2010, a fair value loss of HK$15,660,000 was recognised in profit or loss.

In the current period, a fair value loss of HK$9,720,000 was recognised in profit or loss during the period ended 31 December 2010.

Up to present, Banhart is in negotiation with Fine Chiffon in relation to the timing for transferring the benefits of those assets to Fine Chiffon.

17. SHARE CAPITAL

	Nominal value per share	Numbers of shares	Amount
	HK$		*HK$'000*
Authorised:			
At 1 July 2009, 30 June 2010 and 31 December 2010	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2009	0.01	533,603,992	5,337
Issue of shares on conversion of convertible redeemable preference shares		3,527,500	35
At 30 June 2010 and 31 December 2010	0.01	537,131,492	5,372

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** *HK$'000*
Authorised:		
At 1 July 2009, 30 June 2010 and 31 December 2010	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2009	258,803,430	2,587
Conversion of issued convertible redeemable preference shares	(3,527,500)	(35)
At 30 June 2010 and 31 December 2010	255,275,930	2,552

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:

	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 July 2009	23,693	24,800	48,493
Conversion of convertible redeemable preference shares	(343)	(538)	(881)
Interest charged for the period	3,391	–	3,391
At 30 June 2010	26,741	24,262	51,003
Interest charged for the period	1,861	–	1,861
At 31 December 2010	28,602	24,262	52,864

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

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.

(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 that the conversion price of convertible redeemable preference share has be 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 2010 and 30 June 2010 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 millions convertible redeemable preference shares in issue.

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Note: (Cont'd)

(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.

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.

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Note: (Cont'd)

(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.

(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 2010 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 ("Brightland") issued a writ against Banhart, a subsidiary of the Company, 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 ("Crowning Success"), 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 under HCA 1540 of 2005. On 13 April 2006, the court ordered that Banhart be joined as the second defendant in the action (hereinafter collectively referred to as the "Consolidated Actions"). The amended writ and the amended statement of claim were filed and served on 27 April 2006. The parties have already filed their pleadings.

On 14 February 2008, Crowning Success 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 filed a Notice of Appeal to appeal such decision. The appeal was dismissed by the court on 22 April 2008 with costs to Brightland. On 29 September 2008, the Group paid HK$12,000,000 as a security deposit according to the court order. On 4 April 2009, the Court has ordered Banhart (i) to return the outstanding sales deposits of HK$858,000 to Brightland with interest; (ii) to pay damages to Brightland in the sum of HK$4,740,000 and (iii) to bear the legal costs of Crowning Success and Brightland both of the Consolidated Actions and costs incurred prior to the consolidation. In August 2010, Crowning Success and Brightland claims HK$3,093,000 and HK$3,192,000 respectively for their legal costs incurred. The Company filed an objections on September 2010.

The security deposit paid, after deduction of the damages and legal costs set out in (ii) and (iii) above, is included in other receivables as at 30 June 2010 and 31 December 2010. The sales deposits of HK$858,000 stated in (i) above is included in other payables as at 30 June 2010 and 31 December 2010. The damages of HK$4,740,000 stated in (ii) above is debited directly to the consolidated statement of comprehensive income during year ended 30 June 2009. The legal costs of HK$6,285,000 stated in (iii) above is debited directly to the consolidated statement of comprehensive income during year ended 30 June 2010.

On 31 October 2010, the court ordered that the total amount of the abovementioned damage of HK$12,000,000, which was paid by the Group as a security deposit on 29 September 2008, is the full and final settlement for the litigation. Accordingly, the remaining balance of the security deposit of HK$975,000 is debited directly to the consolidated statement of comprehensive income during the six months ended 31 December 2010.

19. CONTINGENT LIABILITIES (Cont'd)

(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. There is no more update at the end of reporting period.

(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 a total sum of amount not less than HK$5,048,000, 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 and Holyrood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates. There is no more update at the end of reporting period.

(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 a total sum of amount not less than HK$5,154,000, 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 and Holywood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates. There is no more update at the end of reporting period.

(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 a total sum of amount not less than HK$4,085,000, 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. 41and 42 of the Peak Road Project, breach of the Deed of Mutual Covenant and nuisance on the development. Trillion and Holywood attended the office of the Deputy Clerk of Court of the High Court on 15 September 2010 to fix the trial dates. There is no more update at the end of reporting period.

19. CONTINGENT LIABILITIES (Cont'd)

(g) On 22 January 2009, Woon Lee (HK) Company Limited ("Woon Lee HK"), an independent third party, 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$17,316,000 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 HK 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 trial for the action was completed in June 2010 and the judgement was given on 6 August 2010 in favour of Woon Lee HK.

The High Court published a judgment on 21 September 2010 stating that Holyrood was to pay Woon Lee HK a sum of HK$17,316,000 together with interest thereon at the HSBC Best Lending rate plus 1% per annum from 20 March 2008 until the date of the judgment and thereafter at judgment rate. Holyrood will appeal against the judgment. The hearing of the appeal has been fixed to take place on 30 to 31 March 2011.

Given that Holyrood has not settled the judgment sum together with costs and interests thereon with Woon Lee HK, Woon Lee HK has petitioned for a winding-up order against Holyrood. The hearing of the petition for winding-up order against Holyrood has been fixed for argument on 4 May 2011.

(h) Given that Holyrood has not settled an award sum under an arbitration proceedings together with interest thereon and costs of the arbitration proceedings (to be assessed) , Woon Lee Construction ("Woon Lee Construction") Limited has petitioned for a winding-up order against Holyrood. Holyrood has opposed the winding-up petition by raising arguments that there was dispute on the petitioning debt (on the quantum of cost) and that Holyrood also has a cross-claim against Woon Lee Construction in High Court Action 1156 of 2010. Hearing of the winding-up petition has been fixed for argument on 4 May 2011.

Based on the legal advice obtained by the Group, except for the legal costs, damage, construction costs and interest stated in (b), (g) and (h) above, the Board is of the opinion that the above mentioned claims have no merit and the lawsuits will not have a material adverse effect on the condensed consolidated financial statements of the Group for the six months ended 31 December 2010. Accordingly, no further provision is considered necessary.

20. PLEDGE OF ASSETS

At the statement of financial position date, the following assets of the Group were pledged to secure credit facilities granted to the Group.

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Properties held for sale	**759,107**	759,107
Investment properties	**222,000**	198,000
Leasehold properties	**79,011**	80,327
Bank deposits	**21,247**	21,232
	1,081,365	1,058,666

21. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

The Group had the following transactions with parties/persons deemed to be "connected persons" by the Stock Exchange which are also the related parties to the Group under the definition of HKAS 24 "Related Party Disclosures".

(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:

	31.12.2010	30.6.2010
	HK$'000	*HK$'000*
Credit facilities granted to the Group	**952,823**	1,021,113

(b) Details of the amount due to a director of the subsidiaries are set out in note 14.