PALADIN LIMITED

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

INTERIM REPORT

2011

For the six months ended 31 December 2011

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. 15 apartment units have been sold in previous years. No apartment was sold for the six months ended 31 December 2011.

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, the Company did not generate any income in this sector for in the sector for the six months ended 31 December 2011.

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.

Settlement of a loan

As announced by the Company on 13 April 2006, 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") for Banhart to obtain a non-interest bearing loan facility of approximately HK$42 million. As part of the transaction, Banhart also granted two options to Fine Chiffon for purchasing (i) part of the Group's leasehold property at a consideration of approximately HK$32 million and (ii) 20% of the share capital of Banhart, at a consideration of approximately HK$10 million, in substitution for the repayment of the outstanding non-interest bearing loan at the end of the loan period. On 6 September 2008, Fine Chiffon exercised the options.

Banhart and Fine Chiffon were unable to agree terms on the transfer of the benefits of those assets. On 21 December 2011, Banhart entered into settlement agreement (the "Agreement") with Fine Chiffon and agreed to pay approximately HK$66 million in cash to Fine Chiffon in full and final settlement of any and all rights and claims of Fine Chiffon, and the parties released each other from all rights and claims. Upon the signing of the Agreement, the liability amount has been fixed and a fair value gain of approximately HK$53 million was recognised in the profit or loss. The derivative financial instruments were reclassified to other payables on the same date.

The transaction settled a long-outstanding liability of the Company, reduce its gearing and terminate options which effectively restricted Paladin's ability to deal with a core asset.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, net current liabilities of the Group were approximately HK$453 million. The current ratio was 0.68. The pledged bank deposits and bank balances and cash were approximately HK$226 million.

As at 31 December 2011, the Group has outstanding borrowings of approximately HK$1,435 million comprising (i) bank overdraft and secured bank loans of approximately HK$974 million, (ii) tax payables of approximately HK$17 million, (iii) amount due to directors of subsidiaries of approximately HK$293 million and (iv) other payables and bills payables of approximately HK$151 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$1,128 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 2011, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2011, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed a total of 32 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2011, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK$10 million. In the opinion of the directors, the 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 2011.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2011, 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 2011, 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 2011, 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 2011, 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 Audit Committee comprises one non-executive director and three independent non-executive directors. The interim results for the six months ended 31 December 2011 has not been audited by the Group's auditor, but the Audit Committee has reviewed with management the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 31 December 2011.

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 set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors of the Company and the directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 31 December 2011.

By order of the Board
Law Fong
CHAIRMAN

Hong Kong, 28 February 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2011

	NOTES	Six months ended 31 December 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited and restated)
Turnover		**–**	928
Cost of sales		**–**	–
Gross profit		**–**	928
Other income		**7,147**	8,125
Administrative expenses		**(42,972)**	(29,055)
Research and development expenses		**–**	(3,477)
Gain (loss) arising from change in fair value of derivative financial instruments	16	**52,787**	(9,720)
(Loss) gain arising on change in fair value of investment properties	10	**(6,000)**	24,000
Finance costs	5	**(9,156)**	(7,309)
Loss before taxation		**1,806**	(16,508)
Taxation charge		**(14,803)**	–
Loss for the period attributable to equity holders of the Company	7	**(12,997)**	(16,508)
Other comprehensive income (expenses)			
Exchange difference arising on translation of foreign operations		**634**	(468)
Fair value gain on available-for-sale investments		**1,886**	–
Other comprehensive income (expenses) for the period		**2,520**	(468)
Total comprehensive expenses for the period		**(10,477)**	(16,976)
Loss per share	8		
Basic		**(2.42) HK cents**	(3.07) HK cents

	NOTES	**31.12.2011** ***HK$'000*** ***(Unaudited)***	30.6.2011 *HK$'000* *(Audited)*
Non-current assets			
Investment properties	10	**242,000**	248,000
Property, plant and equipment	11	**79,499**	81,174
Available-for-sale investments		**13,000**	11,114
Deposits for acquisition of property, plant and equipment		**–**	459
Pledged bank deposits		**50,090**	61,271
		384,589	402,018
Current assets			
Properties held for sale	12	**774,911**	774,911
Trade receivables, deposits and prepayments	13	**31,330**	36,161
Tax reserve certificates		**–**	4,000
Bank balances and cash		**176,033**	13,721
		982,274	828,793
Current liabilities			
Bills payable		**–**	9,080
Other payables and accrued charges		**151,052**	90,941
Amounts due to directors of subsidiaries	14	**293,224**	106,246
Tax payables		**17,388**	43,400
Bank overdrafts		**26,930**	52,874
Secured bank borrowings – current	15	**946,336**	869,187
Derivative financial instruments	16	**–**	118,800
		1,434,930	1,290,528
Net current liabilities		**(452,656)**	(461,735)
Net liabilities		**(68,067)**	(59,717)
Capital and reserves			
Share capital	17	**5,372**	5,372
Reserves		**(106,126)**	(95,649)
		(100,754)	(90,277)
Non-current liabilities			
Convertible redeemable preference shares	18	**32,687**	30,560
		(68,067)	(59,717)

For the six months ended 31 December 2011

	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 2010 at originally stated	5,372	2,126	24,262	21,766	(3,917)	2,000	(120,975)	(69,366)
Effect of change in accounting policy	–	–	–	–	–	–	13,985	13,985
At 1 July 2010 as restated	5,372	2,126	24,262	21,766	(3,917)	2,000	(106,990)	(55,381)
Loss for the year	–	–	–	–	–	–	(35,455)	(35,455)
Other comprehensive (expenses) income for the year	–	–	–	–	(1,059)	1,614	–	555
Total comprehensive expenses for the year	–	–	–	–	(1,059)	1,614	(35,455)	(34,900)
Issue of shares on conversion of convertible redeemable preference shares	–	10	(6)	–	–	–	–	4
At 30 June 2011 and 1 July 2011 (audited)	5,372	2,136	24,256	21,766	(4,976)	3,614	(142,445)	(90,277)
Loss for the period	–	–	–	–	–	–	(12,997)	(12,997)
Other comprehensive income for the period	–	–	–	–	634	1,886	–	2,520
Total comprehensive expense for the period	–	–	–	–	634	1,886	(12,997)	(10,477)
At 31 December 2011 (unaudited)	5,372	2,136	24,256	21,766	(4,342)	5,500	(155,442)	(100,754)
At 1 July 2010 at originally stated	5,372	2,126	24,262	21,766	(3,917)	2,000	(120,975)	(69,366)
Effect of change in accounting policy	–	–	–	–	–	–	13,985	13,985
At 1 July 2010 as restated	5,372	2,126	24,262	21,766	(3,917)	2,000	(106,990)	(55,381)
Loss for the period	–	–	–	–	–	–	(16,508)	(16,508)
Other comprehensive expenses for the period	–	–	–	–	(468)	–	–	(468)
Total comprehensive expense for the period	–	–	–	–	(468)	–	(16,508)	(16,976)
At 31 December 2010 as restated (unaudited)	5,372	2,126	24,262	21,766	(4,385)	2,000	(123,498)	(72,357)

Notes:

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

(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 2011

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited and restated)*
Net cash used in operating activities	**(80,664)**	(46,865)
Investing activities		
Proceeds from disposal of property, plant and equipment	**–**	30
Decrease (increase) in pledged bank deposits	**11,181**	(15)
Other investing activities	**7**	(220)
Net cash from (used in) investing activities	**11,188**	(205)
Financing activities		
Bank borrowing raised	**110,000**	55,110
Repayment of bank borrowings	**(32,851)**	(6,876)
Advance from (repayment to) amounts due to directors of subsidiaries	**186,978**	(9,516)
Interest paid	**(7,029)**	(5,448)
Net cash from financing activities	**257,098**	33,270
Net increase (decrease) in cash and cash equivalents	**187,622**	(13,800)
Cash and cash equivalents at beginning of the period	**(39,153)**	(37,785)
Effect of foreign exchange rate changes	**634**	(468)
Cash and cash equivalents at end of the period	**149,103**	(52,053)
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	**176,033**	2,692
Bank overdrafts	**(26,930)**	(54,745)
	149,103	(52,053)

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In preparing the condensed 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$452,656,000 and HK$68,067,000 as at 31 December 2011 and the contingent liabilities for the outstanding litigation as disclosed in note 19.

Taking into account the available unutilised bank credit facility of HK$216,241,000 (30 June 2011: HK$245,563,000) as at 31 December 2011 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.

The accounting policies used in the condensed consolidated financial statements for the six months ended 31 December 2011 are same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2011.

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.

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)

During the year ended 30 June 2011, the Group had early adopted the Amendments to HKAS 12 "Income Taxes", in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 "Investment Property". The Group had applied HKAS 12 retrospectively and the comparative amounts had been restated, where appropriate. The Group's loss and loss attributable to owners of the Company reported for the six months ended 31 December 2010 was decreased by HK$3,960,000, whereas the Group's basic loss per share was decreased by HK$0.74.

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

Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
	Mandatory effective date of HKFRS 9 and transition disclosures[2]
HKFRS 9	Financial instruments[2]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[3]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2015.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2014.

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 December 2011) adds requirements for financial liabilities and for derecognition.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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 2011

	Property development *HK$'000*	Property investment *HK$'000*	Consolidated *HK$'000*
TURNOVER			
External sales	–	–	–
RESULT			
Segment result	(26,608)	(5,264)	(31,872)
Gain arising from change in fair value of derivative financial instruments			52,787
Unallocated corporate income			54
Unallocated corporate expenses			(10,007)
Finance costs			(9,156)
Loss before taxation			1,806
Taxation charge			(14,803)
Loss for the period			(12,997)

4. SEGMENT INFORMATION (Cont'd)

Six months ended 31 December 2010

	Property development HK$'000	Property investment HK$'000	Indent trading of merchandise HK$'000	Consolidated HK$'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				(16,203)
Finance costs				(7,309)
Loss for the period (restated)				(16,508)

More than 90% of the Group's turnover for the six months ended 31 December 2011 and 2010 was attributable to the operations carried out in Hong Kong.

5. FINANCE COSTS

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowings:		
– wholly repayable within five years	**7,029**	5,437
Interest on convertible redeemable preference shares *(note 18)*	**2,127**	1,861
Interest on other loans	**–**	11
	9,156	7,309

6. TAXATION

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
		(restated)
Current period	**–**	–
Underprovision in prior years	**(14,803)**	–
	(14,803)	–

In August 2007, January 2009 and February 2010, a subsidiary of the Company received the Assessment Demanding Final Tax (the "Assessments") for the years of assessment 2006/2007, 2007/2008 and 2008/2009 from the 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 and certain items claimed by this subsidiary for the years of assessment from 1997/1998 to 1999/2000 and 2004/2005 to 2005/2006 with aggregated amount of approximately HK$279,990,000.

The Group has lodged objections against the Assessments received from IRD in September 2007 and March 2010 respectively. The IRD has agreed to holdover the tax in dispute of approximately HK$109,277,000 unconditionally and HK$26,877,000 on condition that the tax reserve certificates are purchased on instalment basis (in which HK$4,000,000 has been paid as at 30 June 2011).

In November 2011, this subsidiary received the Revised Assessment Demanding Final Tax (the "Final Assessment") for the years of assessment of 2006/2007, 2007/2008 and 2008/2009 from the IRD. According to the Final Assessment, the tax liability of this subsidiary is fixed with aggregate amount of approximately HK$58,203,000. During the period, the Group has made tax payment of approximately HK$40,815,000, which included the utilisation of tax reserve certificates of HK$4,000,000 to settle part of the total tax liability of this subsidiary.

7. LOSS FOR THE PERIOD

	Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Loss for the period has been arrived at after (charging) crediting:		
Depreciation	**(1,721)**	(3,623)
Interest income	**54**	65

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	
	2011	2010
	HK$'000	*HK$'000*
		(restated)
Loss:		
Loss for the period for the purpose of calculating basic loss per share	**(12,997)**	(16,508)

	Six months ended 31 December	
	2011	2010
Number of shares:		
Weighted average number of ordinary shares for the purposes of calculating basic loss per share	**537,141,492**	537,131,492

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 2011 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 2011, the loss arising on change in fair value of the investment properties of approximately HK$6,000,000 (1.7.2010 to 31.12.2010: the gain arising on change in fair value of the investment properties of approximately HK$24,000,000) has been recognised in the condensed consolidated statement of comprehensive income.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK$1,721,000 (1.7.2010 to 31.12.2010: HK$3,623,000) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent approximately HK$47,000 (1.7.2010 to 31.12.2010: HK$70,000) on additions of property, plant and equipment.

12. PROPERTIES HELD FOR SALE

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
Carrying amount of properties held for sale	**774,911**	774,911

At 31 December 2011 and 30 June 2011, 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 (30.6.2011: 120 days) to its trade customers. The following is an aged analysis of trade receivables at the statement of financial position date:

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
0 to 60 days	**–**	1,475
61 to 120 days	**–**	11,693
	–	13,168

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. There was no trade receivable as at 31 December 2011.

14. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amount as at 31 December 2011 represents amounts due to Oung Da Ming and Uon Margaret who are directors of the Group's major subsidiaries. The amounts are unsecured, non-interest bearing and repayable on demand.

The amount as at 30 June 2011 represents amount due to Oung Da Ming who is a director of the Group's major subsidiaries. The amount is unsecured, non-interest bearing and repayable on demand.

15. SECURED BANK BORROWINGS

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
Secured:		
Revolving loan	**85,000**	75,000
Mortgage loans	**796,336**	719,187
Bank loan	**65,000**	75,000
	946,336	869,187

15. SECURED BANK BORROWINGS (Cont'd)

Comprising amounts following due:

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
On demand and within one year	**272,996**	192,440
In more than one year but not more than two years	**40,081**	115,590
In more than two years but not more than three years	**89,014**	86,362
In more than three years but not more than four years	**37,165**	32,560
In more than four years but not more than five years	**37,687**	32,995
Over five years	**469,393**	409,240
	946,336	869,187
Less: Amounts due within one year shown under current liabilities	**(272,981)**	(192,440)
Carrying amount of bank loans that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	**(673,355)**	(676,747)
Amounts shown under non-current liabilities	**–**	–

At 31 December 2011, the bank borrowings comprised:

(i) a mortgage loan with an outstanding amount of approximately HK$44,935,959 (30 June 2011: HK$46,024,000) that shall be repayable by 240 monthly installments and carries interest at a rate of 0.88% per annum over HIBOR;

(ii) a mortgage loan with an outstanding amount of approximately HK$237,906,476 (30 June 2011: HK$244,901,000) that shall be repayable by 201 monthly installments and carries interest at a rate of 1.2% per annum above HIBOR;

(iii) a revolving loan with an outstanding amount of approximately HK$60,000,000 (30 June 2011: HK$60,000,000) that carries interest at a rate of 0.8% per annum over HIBOR;

(iv) a mortgage loan with an outstanding amount of approximately HK$77,443,754 (30 June 2011: HK$80,073,000) that shall be repayable by 205 monthly installments and carries interest at a rate of 0.88% per annum over HIBOR and

15. SECURED BANK BORROWINGS (Cont'd)

(v) a mortgage loan with an outstanding amount of approximately HK$55,126,817 (30 June 2011: HK$56,764,000) that shall be repayable by 240 monthly installments and carries interest at a rate of 1.25% per annum above HIBOR;

(vi) a mortgage loan with an outstanding amount of approximately HK$26,884,887 (30 June 2011: HK$27,504,000) that shall be repayable by 300 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(vii) a mortgage loan with an outstanding amount of approximately HK$26,008,732 (30 June 2011: HK$26,608,000) that shall be repayable by 300 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(viii) a mortgage loan with an outstanding amount of approximately HK$83,502,259 (30 June 2011: HK$87,096,000) that shall be repayable by 60 monthly installments and carries interest at a rate of 1.2% per annum over HIBOR;

(ix) a mortgage loan with an outstanding amount of approximately of HK$58,891,222 (30 June 2011: HK$60,242,000) that shall be repayable by 300 monthly installments and carries interest at a rate of 0.7% per annum below the HIBOR;

(x) a mortgage loan with an outstanding amount of approximately of HK$60,231,763 (30 June 2011: HK$62,198,000) that shall be repayable by 300 monthly installments and carries interest at a rate of 1.2% per annum below the HIBOR;

(xi) a revolving loan with an outstanding amount of HK$15,000,000 (30 June 2011: HK$15,000,000) that carries interest at a rate 2.00% per annum over HIBOR;

(xii) a mortgage loan with an outstanding amount of HK$27,107,463 (30 June 2011: HK$27,777,000) that shall be repayable by 234 monthly installments and carries interest at a rate of 2.25% per annum below the Hong Kong dollars Prime Rate;

(xiii) a short term loan with an outstanding amount of HK$65,000,000 (30 June 2011: HK$75,000,000) that shall be repayable within three months and carries interest at a rate of 2.25% per annum over HIBOR;

(xiv) A mortgage loan with an outstanding amount of HK$98,296,316 (30 June 2011: Nil) that shall be repayable by 240 monthly instalments and carries interest at a rate of 1.75% per annum above HIBOR; and

15. SECURED BANK BORROWINGS (Cont'd)

(xv) A revolving loan with an outstanding amount of HK$10,000,000 (30 June 2011: Nil) that carries interest at a rate of 2.25% per annum above HIBOR.

The range of effective interest rates of the Group's bank borrowings were 0.92% to 3.05% per annum for the six months ended 31 December 2011 (1.7.2010 to 31.12.2010: 0.86% to 3.05%).

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. The details of pledged assets are disclosed in note 20.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	HK$'000
FAIR VALUE	
At 1 July 2010	91,260
Increase in fair value recognised in profit or loss	27,540
At 30 June 2011	118,800
Decrease in fair value recognized in profit or loss	(52,787)
Transfer to other payables	(66,013)
At 31 December 2011	–

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.

16. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

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.

Banhart and Fine Chiffon were unable to agree terms on the transfer of the benefits of those assets. On 21 December 2011, Banhart entered into settlement agreement (the "Agreement") with Fine Chiffon and agreed to pay approximately HK$66,000,000 in cash to Fine Chiffon in full and final settlement of any and all rights and claims of Fine Chiffon, and the parties released each other from all rights and claims. Upon the signing of the Agreement, the liability amount has been fixed and a fair value gain of HK$52,787,000 was recognised in the profit or loss. The derivative financial instruments were reclassified to other payables on the same date.

17. SHARE CAPITAL

	Nominal value per share	**Numbers of shares**	**Amount**
	HK$		*HK$'000*
Authorised:			
At 1 July 2010, 30 June 2011 and 31 December 2011	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2010	0.01	537,131,492	5,372
Issue of shares on conversion of convertible redeemable preference shares		10,000	–
At 30 June 2011 and 31 December 2011	0.01	537,141,492	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 2010, 30 June 2011 and 31 December 2011	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2010	255,275,930	2,552
Conversion of issued convertible redeemable preference shares	(10,000)	–
At 30 June 2011 and 31 December 2011	255,265,930	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 2010	26,741	24,262	51,003
Conversion of convertible redeemable preference shares	(4)	(6)	(10)
Interest charged for the period	3,823	–	3,823
At 30 June 2011	30,560	24,256	54,816
Interest charged for the period	2,127	–	2,127
At 31 December 2011	32,687	24,256	56,943

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Notes:

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

(i) Cumulative dividend

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

(ii) Early redemption at the option of the Company

The early redemption option of the Company in the event that the price of the ordinary share of the Company close on thirty consecutive trading days at a price that is 100% higher 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 2011 and 30 June 2011 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

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES (Cont'd)

Note: (Cont'd)

(iv) Redemption (Cont'd)

(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.

(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 2011 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 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.

(b) 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 in November 2011 to fix the trial dates. There is no more update at the end of reporting period.

(c) 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 in November 2011 to fix the trial dates. There is no more update at the end of reporting period.

Based on the legal advice obtained by the Group, 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 2011. Accordingly, no further provision is considered necessary.

20. PLEDGE OR SECURED ASSETS

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

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
Properties held for sale	**759,107**	759,107
Investment properties	**242,000**	248,000
Leasehold properties	**76,378**	77,695
Bank deposits	**50,090**	61,271
	1,127,575	1,146,073

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:

	31.12.2011	30.6.2011
	HK$'000	*HK$'000*
Credit facilities granted to the Group	**699,243**	722,105

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