

PALADIN LIMITED

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

INTERIM REPORT

2012

For the six months ended 31 December 2012

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Law Fong (*Chairman*)

Chen Te Kuang Mike

Non-executive Director:

Oung Shih Hua, James

Independent Non-executive Directors:

Zhu Pei Qing

Kwok Wai Chi

Huang Weizong Martin

COMPANY SECRETARY

Chan Chi Ho

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

CITIC Bank International Limited

Wing Lung Bank Limited

Hang Seng Bank Limited

SOLICITORS

Baker & McKenzie

David Norman & Co.

Holman Fenwick Willan

PRINCIPAL REGISTRARS

Appleby Management (Bermuda) Limited

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

REGISTRARS IN HONG KONG

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL OFFICE

45th Floor, Office Tower

Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

AUDIT COMMITTEE

Kwok Wai Chi (*Chairman*)

Oung Shih Hua, James

Huang Weizong Martin

Zhu Pei Qing

NOMINATION COMMITTEE

Law Fong (*Chairman*)

Kwok Wai Chi

Zhu Pei Qing

REMUNERATION COMMITTEE

Kwok Wai Chi (*Chairman*)

Law Fong

Zhu Pei Qing

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the “Peak Road Project”), 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. The Group sold 2 apartment units for approximately HK\$162 million for the six months ended 31 December 2012.

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

Property investment

The income generated from the property investment was approximately HK\$1 million for the six months ended 31 December 2012.

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 the Group at this moment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2012, net current liabilities of the Group were approximately HK\$405 million. The current ratio was 0.68. The pledged bank deposits and bank balances and cash were approximately HK\$159 million.

As at 31 December 2012, the Group has outstanding borrowings of approximately HK\$1,251 million comprising (i) secured bank loans of approximately HK\$859 million, (ii) tax payables of approximately HK\$2 million, (iii) amount due to directors of subsidiaries of approximately HK\$247 million and (iv) other payables of approximately HK\$143 million. The bank borrowings are on floating interest rates basis.

MANAGEMENT DISCUSSION AND ANALYSIS

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\$1,090 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 2012, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2012, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed a total of 32 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2012, there were contingent liabilities in respect of certain legal proceedings against certain subsidiaries of the Company. The aggregate amount of claims was approximately HK\$21 million and full 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 2012.

DIRECTOR REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2012, 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	Number of issued ordinary shares held			Percentage of the issued ordinary shares of the Company
	Beneficial owner	Held by a controlled corporation	Total	
Chen Te Kuang Mike	7,000,000	29,449,000 <i>(Note)</i>	36,449,000	4.85%
Oung Shih Hua, James	7,000,000	–	7,000,000	0.93%

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

Name of director	Number of issued convertible redeemable preference shares held			Percentage of issued convertible redeemable preference shares of the Company
	Beneficial owner	Held by a controlled corporation	Total	
Chen Te Kuang Mike	3,200,000	9,099,014 <i>(Note)</i>	12,299,014	4.82%
Oung Shih Hua, James	2,500,000	–	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 2012, 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.

DIRECTOR REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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 issued ordinary shares of the Company held
Five Star Investments Limited ("Five Star") (Note a)	Beneficial owner	374,941,023	49.86%
Gold Seal Holdings Limited ("Gold Seal") (Note b)	Beneficial owner	93,591,179	12.45%

Name of shareholder	Capacity	Number of issued convertible redeemable preference shares held	Percentage of issued convertible redeemable preference shares held
Five Star	Beneficial owner	133,907,508	52.46%
Oung Da Ming	Beneficial owner	50,000,000	19.59%

Notes:

- (a) Five Star is owned as to 67% by Oung Chin Liang Fung, grandmother of Oung Shih Hua, James and Chen Te Kuang Mike, and 33% by Lilian Oung, mother of Chen Te Kuang Mike.
- (b) Gold Seal is owned as to 66.7% by Oung Da Ming, brother of Lilian Oung and 33.3% by Uon Margaret, sister of Lilian Oung.

Other than as disclosed above, as at 31 December 2012, 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.

DIRECTOR REPORT

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 results for the six months ended 31 December 2012 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 2012.

CORPORATE GOVERNANCE

During the period, the Company had complied with the relevant provisions set out in the Corporate Governance Code (the "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.

Although the non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

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 2012.

By order of the Board

Law Fong
CHAIRMAN

Hong Kong, 22 February 2013

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

		Six months ended	
		31 December	
		2012	2011
<i>NOTES</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
	Turnover	162,196	–
	Cost of sales	(67,782)	–
		<hr/>	<hr/>
		94,414	–
	Other income	4,950	7,147
	Administrative expenses	(20,169)	(42,972)
	Gain (loss) arising on change in fair value of investment properties	7,690	(6,000)
10			
	Gain arising from change in fair value of derivative financial instruments	–	52,787
	Finance costs	(15,668)	(9,156)
5		<hr/>	<hr/>
	Profit before taxation	71,217	1,806
	Taxation charge	–	(14,803)
6		<hr/>	<hr/>
	Profit (loss) for the period	71,217	(12,997)
7			
	Other comprehensive (expenses) income		
	Exchange difference arising on translation of foreign operations	(65)	634
	Fair value gain on available-for-sale investments	1,114	1,886
		<hr/>	<hr/>
	Other comprehensive income for the period	1,049	2,520
		<hr/>	<hr/>
	Total comprehensive income (expenses) for the period	72,266	(10,477)
		<hr/> <hr/>	<hr/> <hr/>
	Earnings (loss) per share		
8			
	Basic	9.47 HK cents	(2.42) HK cents
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>NOTES</i>	31.12.2012 <i>HK\$'000</i> <i>(Unaudited)</i>	30.6.2012 <i>HK\$'000</i> <i>(Audited)</i>
Non-current assets			
Investment properties	10	249,690	242,000
Property, plant and equipment	11	75,888	77,607
Available-for-sale investments		14,700	13,586
Deposit placed for a life insurance policy	12	21,078	21,028
Pledged bank deposits		50,560	50,366
Deposit placed for acquisition of property, plant and equipment		514	–
		412,430	404,587
Current assets			
Properties held for sale	13	710,408	774,911
Trade and other receivables, deposits and prepayments	14	27,042	32,189
Bank balances and cash		108,187	131,183
		845,637	938,283
Current liabilities			
Other payables and accrued charges		134,678	142,545
Amounts due to directors of subsidiaries	15	246,530	249,626
Provision for litigations		8,000	8,000
Taxation payable		2,378	9,578
Bank overdrafts		–	25,072
Secured bank borrowings	16	859,231	975,497
		1,250,817	1,410,318
Net current liabilities		(405,180)	(472,035)
		7,250	(67,448)
Capital and reserves			
Share capital	17	7,520	7,520
Reserves		(37,640)	(109,906)
		(30,120)	(102,386)
Non-current liabilities			
Convertible redeemable preference shares	18	37,370	34,938
		7,250	(67,448)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Other reserve HK\$'000 (Note b)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	
At 1 July 2011 (audited)	5,372	2,136	24,256	21,766	(4,976)	3,614	(142,445)	(90,277)
Loss for the year	-	-	-	-	-	-	(44,855)	(44,855)
Other comprehensive income for the year	-	-	-	-	(30)	2,472	-	2,442
Total comprehensive expenses for the year	-	-	-	-	(30)	2,472	(44,855)	(42,413)
Issue of shares on conversion of convertible redeemable preference shares	-	10	(6)	-	-	-	-	4
Open offer of shares	2,148	31,155	-	-	-	-	-	33,303
Transaction costs attributable to open offer of new shares	-	(3,003)	-	-	-	-	-	(3,003)
At 30 June 2012 and 1 July 2012 (audited)	7,520	30,298	24,250	21,766	(5,006)	6,086	(187,300)	(102,386)
Profit for the period	-	-	-	-	-	-	71,217	71,217
Other comprehensive income for the period	-	-	-	-	(65)	1,114	-	1,049
Total comprehensive income for the period	-	-	-	-	(65)	1,114	71,217	72,266
At 31 December 2012 (unaudited)	7,520	30,298	24,250	21,766	(5,071)	7,200	(116,083)	(30,120)
At 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)

Notes:

- The capital reserve represents the equity component of convertible redeemable preference shares.
- 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 2012

	Six months ended 31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash from (used in) operating activities	130,420	(80,664)
Investing activities		
(Increase) decrease in pledged bank deposits	(194)	11,181
Other investing activities	(287)	7
Net cash (used in) from investing activities	(481)	11,188
Financing activities		
Bank borrowing raised	–	110,000
Repayment of bank borrowings	(116,266)	(32,851)
(Repayment to) advance from amounts due to directors of subsidiaries	(3,096)	186,978
Interest paid	(8,436)	(7,029)
Net cash (used in) from financing activities	(127,798)	257,098
Net increase in cash and cash equivalents	2,141	187,622
Cash and cash equivalents at beginning of the period	106,111	(39,153)
Effect of foreign exchange rate changes	(65)	634
Cash and cash equivalents at end of the period	108,187	149,103
Analysis of the balance of cash and cash equivalents:		
Bank balances and cash	108,187	176,033
Bank overdrafts	–	(26,930)
	108,187	149,103

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2012

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 liabilities and net current liabilities of the Group amounting to approximately HK\$30,120,000 and HK\$405,180,000 respectively as at 31 December 2012.

Taking into account the available unutilised bank credit facility of HK\$249,031,000 (30 June 2012: HK\$206,741,000) as at 31 December 2012 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 2012 are same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2012.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and application (“new and 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 condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

For the six months ended 31 December 2012

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle ¹
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ²
HKFRS 9	Financial instruments ³
HKFRS 10	Consolidated financial statements ¹
HKFRS 11	Joint arrangements ¹
HKFRS 12	Disclosures of interests in other entities ¹
HKFRS 13	Fair value measurements ¹
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 ²
HK(IFRIC*) – INT 20	Stripping costs in the production phase of a surface mine ¹

* IFRIC represents the IFRS Interpretations Committee.

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

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

For the six months ended 31 December 2012

4. SEGMENT INFORMATION

The Group's operating and reportable segments under HKFRS 8 are property development and property investment.

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 2012

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External	<u>161,500</u>	<u>696</u>	<u>162,196</u>
RESULT			
Segment result	85,348	8,239	93,587
Other income			4,950
Unallocated corporate expenses			(11,652)
Finance costs			(15,668)
Profit before taxation			<u>71,217</u>
Taxation charge			<u>-</u>
Profit for the period			<u>71,217</u>

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

For the six months ended 31 December 2012

4. SEGMENT INFORMATION (Cont'd)

Six months ended 31 December 2011

	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER			
External	—	—	—
	<u> </u>	<u> </u>	<u> </u>
RESULT			
Segment result	(26,608)	(5,264)	(31,872)
Gain arising from change in fair value of derivative financial instruments			52,787
Other income			7,147
Unallocated corporate expenses			(17,100)
Finance costs			(9,156)
			<u> </u>
Profit before taxation			1,806
Taxation charge			(14,803)
			<u> </u>
Loss for the period			(12,997)
			<u> </u>

More than 90% of the Group's turnover for the six months ended 31 December 2012 and 2011 was attributable to the operations carried out in Hong Kong.

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

For the six months ended 31 December 2012

5. FINANCE COSTS

	Six months ended	
	31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings:		
– wholly repayable within five years	1,320	2,618
– not wholly repayable within five years	6,867	4,411
Interest on other borrowings	4,800	–
Interest on bank overdrafts	249	–
Interest on convertible redeemable preference shares (<i>note 18</i>)	2,432	2,127
	<u>15,668</u>	<u>9,156</u>

6. TAXATION CHARGE

	Six months ended	
	31 December	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Hong Kong Profits Tax for the period	–	–
Underprovision in prior years:		
Hong Kong Profits Tax	–	(14,803)
Tax charge attributable to the Company and its subsidiaries	<u>–</u>	<u>(14,803)</u>

No tax is payable on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Taxation charge in the prior period represents underprovision of Hong Kong Profits Tax by a subsidiary of the Company.

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

For the six months ended 31 December 2012

6. TAXATION CHARGE (Cont'd)

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 certificate is purchased on instalment basis (in which HK\$4,000,000 has been paid as at 30 June 2011).

During the six months ended 31 December 2011, the Group submitted a proposal for settlement of the case for the years of assessment of 1997/1998 to 2010/2011. The IRD accepted the proposal and issued the revised statement of loss for the years of assessment from 1997/1998 to 2006/2007 and the Revised Assessment Demanding Final Tax (the "Revised Assessment") for the years of assessment, 2007/2008 and 2008/2009 accordingly. According to the Revised Assessment, the tax liability of this subsidiary is in the aggregate amount of approximately HK\$58,193,000. An additional amount of income tax of HK\$14,803,000 was made in the period ended 31 December 2011 in respect of underprovision in prior years.

7. PROFIT (LOSS) FOR THE PERIOD

	Six months ended	
	31 December	
	2012	2011
	HK\$'000	HK\$'000
Profit (loss) for the period has been arrived at after (charging) crediting:		
Depreciation	(1,719)	(1,721)
Interest income	715	54
	<u>715</u>	<u>54</u>

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 2012 has been arrived at on the basis of a valuation carried out on that day by LCH (Asia-Pacific) Surveyors Limited (30 June 2012: Messrs. Savills Valuation and Professional Services Limited), the independent qualified professional property valuers not connected with the Group. Both LCH (Asia-Pacific) Surveyors Limited and Savills Valuation and Professional Services Limited are members of the Hong Kong Institute of Surveyors. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties are two developed properties located at Nos.8, 10 and 12 Peak Road which are held by the Company for long-term capital appreciation. These properties are classified as investment properties and are measured using the fair value model.

All the Group's investment properties are situated in Hong Kong with long lease. They were secured to support banking facilities granted to the Group.

During the six months ended 31 December 2012, the gain arising on change in fair value of the investment properties of approximately HK\$7,690,000 (1.7.2011 to 31.12.2011: the loss arising on change in fair value of the investment properties of approximately HK\$6,000,000) has been recognised in the condensed consolidated statement of comprehensive income.

11. PROPERTY, PLANT AND EQUIPMENT

During the period, depreciation of approximately HK\$1,719,000 (1.7.2011 to 31.12.2011: HK\$1,721,000) were charged in respect of the Group's property, plant and equipment. In addition, the Group spent nil (1.7.2011 to 31.12.2011: HK\$47,000) on additions of property, plant and equipment.

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

For the six months ended 31 December 2012

12. DEPOSIT PLACED FOR A LIFE INSURANCE POLICY

In March 2012, the Company's subsidiary World Modern International Limited ("World Modern") entered into a life insurance policy with an insurance company to insure an Executive Director. Under the policy, the beneficiary and policy holder is World Modern and the total insured sum is US\$10,000,000 (approximately HK\$78,000,000). World Modern is required to pay an upfront deposit of US\$2,806,000 (approximately HK\$21,887,000) including a premium charge at inception of the policy amounting to US\$168,000 (approximately HK\$1,310,000). World Modern can terminate the policy at any time and receive cash back based on the cash value of the policy at the date of withdrawal, which is determined by the upfront payment of US\$2,806,000 plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge ("Cash Value"). In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified amount of surrender charge. The insurance Company will pay World Modern an interest of 4.65% per annum on the outstanding Cash Value of the policy for the first year. Commencing on the 2nd year, the interest will become 2% per annum plus a premium determined by the insurance company.

As at 31 December 2012 and 30 June 2012, the deposit placed for a life insurance policy was pledged to a bank to secure general banking facilities granted to the Group.

The deposit placed for a life insurance policy is denominated in USD, a currency other than the functional currency of the respective group entity.

13. PROPERTIES HELD FOR SALE

	31.12.2012	30.6.2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of properties held for sale	710,408	774,911

At 31 December 2012 and 30 June 2012, the properties held for sale are stated at cost.

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

For the six months ended 31 December 2012

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 120 days (30.6.2012: 120 days) to its trade customers. The following is an aged analysis of trade receivables at the statement of financial position date:

	31.12.2012	30.6.2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 60 days	–	–
61 to 120 days	–	–
121 days to 1 year	–	–
Over 1 year	6,584	6,584
	<hr/>	<hr/>
	6,584	6,584
	<hr/> <hr/>	<hr/> <hr/>

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.

15. AMOUNTS DUE TO DIRECTORS OF SUBSIDIARIES

The amounts as at 31 December 2012 and 30 June 2012 represent amounts due to Oung Da Ming and Uon Margaret, who are the directors of the Group's major subsidiaries. The amounts are unsecured, non-interest bearing and repayable on demand.

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

For the six months ended 31 December 2012

16. SECURED BANK BORROWINGS

	31.12.2012	30.6.2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured:		
Revolving loans	60,000	115,000
Mortgage loans	786,210	845,944
Bank loan	13,021	14,553
	<hr/>	<hr/>
	859,231	975,497
	<hr/> <hr/>	<hr/> <hr/>
Comprising amounts following due:		
On demand and within one year	110,080	239,595
In more than one year but not more than two years	99,073	96,011
In more than two years but not more than three years	47,516	41,986
In more than three years but not more than four years	48,269	42,628
In more than four years but not more than five years	46,785	42,529
Over five years	507,508	512,748
	<hr/>	<hr/>
	859,231	975,497
Less: Amounts due within one year shown under current liabilities	(110,080)	(239,595)
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)	(749,151)	(735,902)
	<hr/>	<hr/>
Amounts shown under non-current liabilities	-	-
	<hr/> <hr/>	<hr/> <hr/>

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

For the six months ended 31 December 2012

16. SECURED BANK BORROWINGS (Cont'd)

At 31 December 2012, the bank borrowings comprised:

- (i) a mortgage loan with an outstanding amount of approximately HK\$42,810,000 (30 June 2012: HK\$43,864,000) that shall be repayable by 210 monthly installments and carries interest at a rate of 1.25% per annum over HIBOR;
- (ii) a mortgage loan with an outstanding amount of approximately HK\$191,873,000 (30 June 2012: HK\$230,922,000) that shall be repayable by 170 monthly installments and carries interest at a rate of 1.20% per annum above HIBOR;
- (iii) a revolving loan with an outstanding amount of approximately HK\$35,000,000 (30 June 2012: HK\$60,000,000) that carries interest at a rate of 2.00% per annum over HIBOR;
- (iv) a mortgage loan with an outstanding amount of approximately HK\$72,215,000 (30 June 2012: HK\$74,841,000) that shall be repayable by 152 monthly installments and carries interest at a rate of 0.88% per annum over HIBOR;
- (v) a mortgage loan with an outstanding amount of approximately HK\$51,840,000 (30 June 2012: HK\$53,491,000) that shall be repayable by 169 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\$25,648,000 (30 June 2012: HK\$26,268,000) that shall be repayable by 225 monthly installments and carries interest at a rate of 0.70% per annum below the HIBOR;
- (vii) a mortgage loan with an outstanding amount of approximately HK\$24,813,000 (30 June 2012: HK\$25,413,000) that shall be repayable by 225 monthly installments and carries interest at a rate of 0.70% per annum below the HIBOR;
- (viii) a mortgage loan with an outstanding amount of approximately HK\$73,320,000 (30 June 2012: HK\$79,924,000) that shall be repayable by 117 monthly installments and carries interest at a rate of 1.95% per annum over HIBOR;
- (ix) a mortgage loan with an outstanding amount of approximately of HK\$56,194,000 (30 June 2012: HK\$57,546,000) that shall be repayable by 227 monthly installments and carries interest at a rate of 0.70% per annum below the HIBOR;
- (x) a mortgage loan with an outstanding amount of approximately of HK\$56,312,000 (30 June 2012: HK\$58,608,000) that shall be repayable by 19 monthly installments and carries interest at a rate of 1.20% per annum below the HIBOR;
- (xi) a revolving loan with an outstanding amount of HK\$15,000,000 (30 June 2012: HK\$15,000,000) that carries interest at a rate 2.00% per annum over HIBOR;

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

For the six months ended 31 December 2012

16. SECURED BANK BORROWINGS (Cont'd)

- (xii) a mortgage loan with an outstanding amount of HK\$97,008,000 (30 June 2012: HK\$98,818,000) that shall be repayable by 230 monthly installments and carries interest at a rate of 3.00% per annum over HIBOR;
- (xiii) A mortgage loan with an outstanding amount of approximately HK\$94,177,000 (30 June 2012: HK\$96,249,000) that shall be repayable by 223 monthly instalments and carries interest at a rate of 1.75% per annum above HIBOR;
- (xiv) A revolving loan with an outstanding amount of approximately HK\$10,000,000 (30 June 2012: HK\$10,000,000) that carries interest at a rate of 2.25% per annum over HIBOR; and
- (xv) a bank loan with an outstanding amount of approximately HK\$13,021,000 (30 June 2012: HK\$14,553,000) that shall be repayable by 51 monthly installments and carries interest at a rate of 2.50% per annum over HIBOR, LIBOR or the Bank's cost of funds, whichever is higher.

The range of effective interest rates of the Group's bank borrowings were 0.92% to 3.28% per annum for the six months ended 31 December 2012 (1.7.2011 to 31.12.2011: 0.92% 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.

17. SHARE CAPITAL

	Nominal value per share HK\$	Numbers of shares	Amount HK\$'000
Authorised:			
At 1 July 2011, 30 June 2012 and 31 December 2012	0.01	50,000,000,000	500,000
Issued and fully paid:			
At 1 July 2011	0.01	537,141,492	5,372
Issue of shares on conversion of convertible redeemable preference shares		10,000	–
Open offer of shares		214,860,596	2,148
At 30 June 2012 and 31 December 2012	0.01	752,012,088	7,520

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

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

For the six months ended 31 December 2012

18. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Number of preference shares	Amount of par value HK\$'000
Authorised:		
At 1 July 2011, 30 June 2012 and 31 December 2012	1,270,000,000	12,700
Issued and fully paid:		
At 1 July 2011	255,265,930	2,552
Conversion of issued convertible redeemable preference shares into ordinary shares	(10,000)	–
At 30 June 2012 and 31 December 2012	255,255,930	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 2011	30,560	24,256	54,816
Conversion of convertible redeemable preference shares	(4)	(6)	(10)
Interest charged for the year	4,382	–	4,382
At 30 June 2012	34,938	24,250	59,188
Interest charged for the year	2,432	–	2,432
At 31 December 2012	37,370	24,250	61,620

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 declared and paid by Sensors Integration Technology Limited, a wholly-owned subsidiary of the Company. Sensors Integration Technology Limited is an investment holding company with its subsidiaries principally engaged in manufacture of optical sensor systems and optical communication products.

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

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

(iii) *Further issues*

The right of the Company to issue convertible redeemable preference shares in priority to the existing convertible redeemable preference shares has been revoked. New issues of convertible redeemable preference shares shall 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.

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 2012 and 30 June 2012 include the following:

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

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

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 by paying HK\$0.25 per share to the Company for entitling one ordinary share of the Company of HK\$0.01 each, subject to anti-dilutive adjustment provisions which are standard terms for convertible securities of similar type. The adjustment events will arise as a result of certain changes in share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company.

Holders of the convertible redeemable preference shares are not required to pay any extra amount should they convert their convertible redeemable preference shares into ordinary shares in the Company.

(iii) Cumulative dividends

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

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 outstanding convertible redeemable preference shares, whereupon subject to the requirements of the Bermuda 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 such other internationally 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 has been 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 been permitted only if the proceeds of the issues are used solely to subscribe for the same number of ordinary shares in Sensors Integration Technology Limited and at the same price.

The net proceeds received from the issue of the convertible redeemable preference shares contain the following components that are required to be separately accounted for in accordance with HKAS 32 "Financial Instruments: Presentation":

- (i) 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 is calculated by applying effective interest rate of 13.83% per annum of the debt component for the period since the alternation of the terms of the convertible redeemable preference shares on 3 July 2007.

- (ii) 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 2012. Except as disclosed in (b) and (c) below, 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 have not been stated, no such details are available.
- (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. The judgment was handed down on 1 March, 2012 against Holyrood. Holyrood was ordered to pay Gateway the sum of HK\$4,967,000 plus interest. The judge has also made a costs order nisi that Holyrood shall pay the legal costs of Gateway on an indemnity basis, which is approximately HK\$4,000,000. Holyrood has filed a notice of appeal on 29 March 2012 against the judgment. The appeal will be heard on 25 to 27 June 2013.

On 28 June 2012, Holyrood paid a deposit of HK\$6,692,000 to the Court of Appeal, representing the aggregate of (i) the damages of HK\$4,967,000 and (ii) interest of HK\$1,725,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012. The litigation is still on going and no further update in the current interim 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. The judgment was handed down on 1 March 2012 against Holyrood. Holyrood was ordered to pay Sun Crown the sum of HK\$4,953,000 plus interest. The judge has also made a costs order nisi that Holyrood shall pay the legal costs of Sun Crown on an indemnity basis, which is approximately HK\$4,000,000. Holyrood has filed a notice of appeal dated 29 March 2012 against the judgment. The appeal will be heard on 25 to 27 June 2013.

On 28 June 2012, Holyrood paid a deposit of HK\$6,685,000 to the Court of Appeal, representing the aggregate of (i) the damages of HK\$4,953,000 and (ii) interest of HK\$1,732,000. The deposit was written off against the damages and interest expenses and charged to profit or loss during the year ended 30 June 2012. The litigation is still on going and no further update in the current interim period.

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

For the six months ended 31 December 2012

19. CONTINGENT LIABILITIES (Cont'd)

- (d) On 18 July 2011, Century Pacific Holdings Limited ("Century Pacific") (of which the beneficial owners are independent third parties) issued a writ of summons against Holyrood, claiming, among others, damages for breach of an agreement for sale and purchase of Flat B on the 3rd Floor of Block A2 and the car parking space No. 38 of the Peak Road Project, breach of the Deed of Mutual Covenant and nuisance on the development. On 4 July 2012 and 3 September 2012, Century Pacific issued summons for extension to file and serve its statement of claim. The date of hearing has not been fixed. As the amount of damages and claims are to be assessed, no such details are available.

Based on the legal advice obtained by the Group, the Board is of the opinion that the Group has grounds to successfully contest the remaining claims and the lawsuits will not have a material adverse effect on the consolidated financial statements of the Group. Accordingly, no further provision is considered necessary.

20. PLEDGE OR SECURED ASSETS

At the end of the reporting period, the following assets of the Group were pledged or secured to support credit facilities (including letter of guarantee) granted to the Group:

	31.12.2012	30.6.2012
	HK\$'000	HK\$'000
Properties held for sale	694,603	759,107
Investment properties	249,690	242,000
Leasehold properties	73,747	75,063
Deposit placed for a life insurance policy	21,078	21,028
Bank deposits	50,560	50,366
	1,089,678	1,147,564

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

For the six months ended 31 December 2012

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, a director of certain subsidiaries and also one of the shareholders of Five Star, has provided personal guarantees in respect of the following:

	31.12.2012	30.6.2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit facilities granted to the Group	290,461	326,681

- (b) Margaret Oung, a director of certain subsidiaries and also one of the shareholders of Gold Seal Holdings Limited (“Gold Seal”), a shareholder of the Company, has provided personal guarantees in respect of the following:

	31.12.2012	30.6.2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit facilities granted to the Group	320,000	320,000

- (c) Details of the amounts due to directors of the subsidiaries are set out in note 15.