

MANAGEMENT DISCUSSION AND ANALYSIS

The principal activities of the Group are re-development of a property project at Nos. 8, 10 and 12 Peak Road (the “Peak Road Project”) and trading of textiles.

BUSINESS REVIEW AND PROSPECTS

Re-development

The Peak Road Project located at Nos. 8, 10 and 12 Peak Road, Hong Kong consists of 34 apartment units and a 3-storey private house and the gross floor area is approximately 119,000 square feet. The Company commenced the pre-sale of the Peak Road Project on 22 November 2004. 10 apartment units were sold for the year ended 30 June 2005. The Company did not sell any apartment units for the six months ended 31 December 2005.

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.

Trading of textiles

The turnover in this sector was HK\$2 million for the six months ended 31 December 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, net current liabilities of the Group were approximately HK\$88 million. The current ratio was 0.92. The bank balances and cash were approximately HK\$1 million.

As at 31 December 2005, the Group has outstanding borrowings of approximately HK\$1,218 million comprising (i) secured bank loans of approximately HK\$586 million, (ii) other loans and amounts due to directors of subsidiaries of approximately HK\$410 million and (iii) other payables and taxation payable of approximately HK\$222 million. The bank borrowings are on floating interest rates basis.

PALADIN LIMITED

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

The Group's bank loans and other loans were secured by leasehold land and buildings, and properties held for sale of approximately HK\$1,228 million. The issued ordinary shares of a wholly-owned subsidiary of the Company, Holyrood Limited, were also pledged to a bank to secure credit facilities granted to the Group.

The Group's gearing ratio, total debts divided by total assets, was approximately 98%.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the six months ended 31 December 2005, the Group had no material acquisitions and disposals of subsidiaries.

As at 31 December 2005, the Group had no material investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total of 15 employees. They were remunerated according to market conditions.

CONTINGENT LIABILITIES

As at 31 December 2005, the Company has contingent liabilities of approximately HK\$1,106 million relating to corporate guarantees given in respect of bank loan facilities granted to certain subsidiaries and an independent third party.

INTERIM DIVIDEND

The Directors of the Company do not recommend the payment of any interim dividend for the six months ended 31 December 2005.