ERNST & YOUNG
安永會計師事務所

To the members
**Hudson Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 17 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

**Respective responsibilities of directors and auditors**
The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**
We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Fundamental uncertainty relating to the completion of the corporate restructuring exercise and the going concern basis**
In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the following fundamental uncertainties:

(1) As explained in note 1 to the financial statements, the Group is undergoing a corporate restructuring exercise in order to improve the Group's operating performance and financial position. Pursuant to the restructuring exercise, in June 2003, the Group entered into a conditional sale and purchase agreement (the "Agreement") with a third party (the "Vendor") for the acquisition (the "Acquisition") of a 17.95% equity interest (approximately) in a company which indirectly holds controlling interests in a property investment company in Beijing, the People's Republic of China, (the "JV Company") for a consideration of approximately HK$47 million. The consideration is to be satisfied by the transfer of a 60% equity interest in Hudson Finance Company Limited ("Hudson Finance"), a wholly-owned subsidiary, and the transfer of a

60% interest in the Hudson Finance shareholder's loan due to Hudson Development Worldwide Limited, the then immediate holding company of Hudson Finance. In addition, pursuant to the Agreement, the Group is entitled to require the Vendor to purchase all of its remaining 40% interest in Hudson Finance and its remaining 40% interest in the Hudson Finance shareholder's loan for an aggregate cash consideration of HK$31.4 million at any time following the completion of the Acquisition up to 31 March 2004 (the "Put Option"). It is the directors' stated intention to exercise the Put Option on or before 31 December 2003.

The Agreement is conditional upon the fulfillment of certain conditions as specified therein. The directors expect the Acquisition to be completed by the end of July 2003.

Upon completion of the Acquisition and the exercise of the Put Option, the Group's entire equity interests in Hudson Finance (the major assets of which are various receivable balances of approximately HK$78 million (the "Receivables"), which were included in "Accounts receivable", "Prepayments, deposits and other receivables" and "Due from contract customers" as to approximately HK$23 million, HK$48 million and HK$7 million, respectively, at 31 December 2002) would have been disposed of to a third party. Having considered that the Receivables have been agreed to be taken up at cost by an independent third party as consideration for the Acquisition, no impairment provision against such has been made in these financial statements. However, should the Acquisition fail to be completed, the recoverability of the Receivables may need to be reassessed. The financial statements do not include any adjustments that may result due to a failure to complete the Acquisition.

(2) During the year, the Group recorded a significant loss of HK$118,932,000 (which has not taken into account the adjustments we consider to be necessary as set out in the following section "Qualified opinion arising from disagreement about accounting treatment" of this report). The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful completion and outcome of the corporate restructuring exercise as stated above and in note 1 to the financial statements, the ongoing support of the Group's bankers and creditors and the attainment of profitable and cash flow positive operations. The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures regarding the fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

**Qualified opinion arising from disagreement about accounting treatment**

As explained in our report on the Company's prior year financial statements dated 30 April 2002, the Group's investment properties as at 31 December 2001 were stated in the balance sheet on the basis of a directors' valuation of HK$345,340,000, which differed from an independent professional valuation performed by RHL Appraisal Ltd., obtained by the directors of HK$305,340,000 performed as at the same date. Under the provisions of Hong Kong Statement of Standard Accounting Practice 2.113 "Accounting for investment properties" ("SSAP 13"), investment properties should be valued annually by persons holding a recognised qualification in valuing properties and having recent post-qualification experience in valuing properties in the location and in the category of the properties concerned. Accordingly, in our opinion the requirements of SSAP 13 had not been met. Had the investment properties been stated at the valuation performed by the independent professional valuers as at 31 December 2001, the effect would have been to reduce the Group's profit for that year (indeed, the Group would instead have recorded a loss of approximately HK$38.6 million) and the retained profits and investment properties as at 31 December 2001 by approximately HK$40 million. Consequently, our auditors' report dated 30 April 2002 on the financial statements of the Group for the year ended 31 December 2001 was qualified in respect of a disagreement about accounting treatment affecting the Group's loss for that year and the retained profits and carrying value of investment properties of the Group as at 31 December 2001. During the current year the Group recorded the revaluation deficit of HK$40 million as part of the current year revaluation deficit of HK$42.9 million to state its investment properties at their open market value, as at 31 December 2002. Accordingly, this revaluation deficit has been accounted for in the wrong year. The correct accounting thereof would have reduced the loss of the Group for the year ended 31 December 2002 by HK$40 million.

Except for the adjustments that have been found to be necessary in respect of the Group's opening retained profits as at 31 December 2001 and accordingly its loss for the year ended 31 December 2002 referred to above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong, 27 June 2003