1. CORPORATE INFORMATION AND RECENT DEVELOPMENT

The principal place of business of Hudson Holdings Limited is located at 19th Floor, No. 118 Connaught Road West, Hong Kong.

During the year, the Group was principally engaged in the following activities:

- property development
- property investment
- provision of property management and agency services
- provision of design, decoration services and electrical and mechanical works

There were no significant changes in the nature of the Group's principal activities during the year.

Corporate restructuring exercise

For the purpose of repositioning the Group and focusing on property related businesses in Mainland China, and so as to improve its operational and financial performance, subsequent to the balance sheet date, in June 2003, the Group entered into a conditional sale and purchase agreement (the "Agreement") with a third party (the "Vendor"), which also holds 40% equity interest in Koffman Securities Limited, the placing agent of the Group's placement of 49,000,000 shares of HK$0.10 each subsequent to the balance sheet date (note 43(a)), for the acquisition (the "Acquisition") of a 17.95% equity interest (approximately) in Sycamore Asia Limited ("Sycamore"), a company incorporated in the British Virgin Islands, which indirectly holds controlling interests in a property investment company (the "JV Company") in Beijing, the People's Republic of China (the "PRC"), 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' 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 Agreement to be completed by the end of July 2003. Further details of the Agreement and the transaction are set out in the Company's announcement dated 13 June 2003.

Upon completion of the Agreement 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 in total) would be disposed of at consideration approximately equivalent to its net asset value, the sales proceeds of which would include HK$31.4 million in cash. It is proposed that the properties held by the JV Company will be renovated at a budgeted cost of RMB88 million. The Group is in discussion with the JV Company as to the possibility of obtaining the various construction contracts for such renovation works. The directors are optimistic about the Group's prospects of securing the aforementioned construction contracts.

1. CORPORATE INFORMATION AND RECENT DEVELOPMENT *(continued)*

The directors also undertook certain other restructuring measures, detailed in note 43 to the financial statements, with the intention of improving the Group's liquidity and operating capability. In addition, the directors are in the process of finalising the terms of the service agreement in connection with the services to be provided by Koffman Financial Group Limited in assisting the Group to implement the various restructuring measures. The directors expect the fees payable by the Group in this regard would not be more than HK$5 million.

In light of the corporate restructuring exercise being implemented as stated above, notwithstanding the Group had a significant loss of HK$118,932,000 for the year ended 31 December 2002, the directors are of the opinion that the Group will attain profitable and cash flow positive operations and the Group will have sufficient working capital for its current requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue as a going concern due to the failure to complete the Agreement or unable to exercise the Put Option, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements arising from those SSAPs which have had significant effects on these financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated summary statement of changes in equity is now presented on page 20 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") *(continued)*

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" in notes 3 and 37(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosure in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 6 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as disclosed in note 35 to the financial statement. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets and equity investments as further explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the activities of the joint venture company, capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, with other joint venture parties over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's share or registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's share or registered capital, and neither has joint control, nor is in a position to exercise significant influence over the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control by the Group and other joint venture parties, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land	Over the remaining unexpired lease terms
Buildings	25 years
Leasehold improvements	Shorter of the lease terms or 6 years
Furniture and fixtures	5 years
Office equipment	5 years
Motor vehicles	3 to 6 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties under development

Properties under development are stated at cost less any impairment losses. Cost comprises land and other development costs, including capitalised interest, at the balance sheet date.

On completion of the properties, the relevant account balance will be reclassified to fixed assets, properties held for sale or investment properties for rental purposes, depending on the intended usage.

Investments in securities

Investment securities are non-trading investments which are intended to be held on a continuing strategic basis and are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Investments other than investment securities are classified as other investments and are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values are credited or charged to the profit and loss account for the period in which they arise.

Properties contracted/held for sale

Properties contracted/held for sale are stated at the lower of cost and net realisable value. Net realisable value is based on the prevailing market value less further selling expenses expected to be incurred.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total costs of the relevant contract or certification by customers. Provision is made for foreseeable losses as soon as they are anticipated by the management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for that year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

Employee benefits

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(ii) from the sale of properties, when a legally binding unconditional sale and purchase agreement has been executed;

(iii) from the rendering of property management and agency services, when such services are rendered;

(iv) rental income, on a time proportion basis over the lease terms;

(v) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(vi) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(vii) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to pledged time deposits, bank loans and trust receipt loans, further details of which are included in note 37(a) to the financial statements.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at bank, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the property development business segment engages in the development of properties for sale;

(b) the property investment business segment engages in property leasing;

(c) the property management and agency services segment provides property management and agency services;

(d) the construction segment engages in construction contract work as a main contractor or sub-contractor, primarily in respect of design, decoration, electrical and mechanical work; and

(e) the general trading segment engages in the trading of textile products and was discontinued during the year ended 31 December 2001.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4. SEGMENT INFORMATION *(continued)*

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Continuing operations								Discontinued operations					
	Property development		Property investment		Property management and agency services		Construction		General trading		Eliminations		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Segment revenue:														
Sales to/revenue from external customers	424	4,707	27,714	13,170	8,427	9,327	37,145	73,830	–	20,712	–	–	73,710	121,746
Intersegment sales	1,743	34,275	117	–	–	83	–	–	–	–	(1,860)	(34,358)	–	–
Total	2,167	38,982	27,831	13,170	8,427	9,410	37,145	73,830	–	20,712	(1,860)	(34,358)	73,710	121,746
Segment results	(29,742)	(26,158)	(55,981)	7,308	3,114	4,572	(11,277)	(12,841)	–	8,172	–	–	(93,886)	(18,947)
Interest income													3,259	1,504
Other unallocated revenue													32	670
Unallocated expenses													(44,096)	(15,750)
Loss from operating activities													(134,691)	(32,523)
Finance costs													(24,195)	(24,685)
Share of profits and losses of:														
Jointly-controlled entities	(327)	(1,610)	–	–	–	–	–	–	–	–	–	–	(327)	(1,610)
Unallocated amounts on jointly-controlled entities													43,096	48,079
Associates													(216)	(2,196)
Loss before tax													(116,333)	(12,935)
Tax													(8,435)	(17,172)
Loss before minority interests													(124,768)	(30,107)
Minority interests													5,836	31,486
Net profit/(loss) from ordinary activities attributable to shareholders													(118,932)	1,379

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Group

	Continuing operations								Discontinued operations					
	Property development		Property investment		Property management and agency services		Construction		General trading		Eliminations		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Segment assets	72,540	80,561	269,072	345,340	633	682	48,558	45,987	–	–	–	–	390,803	472,570
Unallocated assets													104,016	119,180
Interests in jointly-controlled entities	–	35,475	–	–	–	–	–	–	–	–	–	–	–	35,475
Unallocated amounts on jointly-controlled entities													(70,048)	(33,844)
Interests in associates													473	2,377
Total assets													425,244	595,758
Segment liabilities	27,216	26,311	3,400	2,986	4,240	4,814	17,550	25,820	–	–	–	–	52,406	59,931
Unallocated liabilities													307,125	356,914
Total liabilities													359,531	416,845
Other segment information:														
Depreciation	–	–	–	–	100	156	186	178	–	4	–	–	286	338
Unallocated amounts													2,314	2,733
													2,600	3,071
Provision against doubtful debts	–	–	–	–	–	–	29	–	–	–	–	–	29	–
Unallocated amounts													6,912	902
													6,941	902
Loss on disposal of investment properties	–	–	15,001	1,267	–	–	–	–	–	–	–	–	15,001	1,267
Revaluation deficit on investment properties	–	–	42,901	–	–	–	–	–	–	–	–	–	42,901	–
Impairment of properties contracted/held for sales	1,659	16,163	–	–	–	–	–	–	–	–	–	–	1,659	16,163
Gain on disposal of a subsidiary	–	–	–	–	–	–	–	(248)	–	(7,058)	–	–	–	(7,306)
Loss on disposal of jointly controlled entities	27,165	–	–	–	–	–	–	–	–	–	–	–	27,165	–
Capital expenditure	–	300	–	910	47	–	–	–	–	–	–	–	47	1,210
Unallocated amounts													124	1,036
													171	2,246

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Segment revenue:						
Sales to external customers	1,368	56,088	72,342	65,658	73,710	121,746
Other segment information:						
Segment assets	38,697	65,918	386,547	529,840	425,244	595,758
Capital expenditure	–	300	47	910	47	1,210

5. TURNOVER AND REVENUE

An analysis of the turnover and other revenue of the Group is as follows:

	2002 HK$'000	2001 HK$'000
Turnover		
Continuing operations:		
Construction contract revenue	37,145	73,830
Sale of properties	23,161	8,832
Gross rental income	4,977	9,045
Property management and agency fees	8,427	9,327
	73,710	101,034
Discontinued operations (note 6):		
Sale of goods	–	20,712
	73,710	121,746
Other revenue		
Interest income	3,259	1,504
Others	474	2,894
	3,733	4,398
	77,443	126,144

6. DISCONTINUED OPERATIONS

During the year ended 31 December 2001, the Group discontinued its textile products trading business following the disposal of 66% of its original holding of a 70% equity interest in South Field (Pacific) Limited ("South Field") on 27 March 2001. The disposal was part of the Group's long term strategy to concentrate on its property and construction related businesses. The results of South Field were consolidated up to the date of its disposal, at which time the assets and liabilities of South Field disposed of were included in the calculation of the gain on disposal of a subsidiary.

The turnover, other revenue, expenses and results of the business of trading of textile products for the period from 1 January to 27 March 2001 (date of disposal) were as follows:

	HK$'000
TURNOVER	20,712
Other revenue	238
Cost of inventories sold	(18,118)
Gain on disposal of discontinued operations	7,058
Other operating expenses	(1,718)
PROFIT FROM OPERATING ACTIVITIES	8,172
Finance costs	(321)
PROFIT BEFORE TAX	7,851
Tax	–
PROFIT AFTER TAX	7,851

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Notes	2002 HK$'000	2001 HK$'000
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		15,076	17,043
Pension scheme contributions (defined contribution scheme)		297	309
		15,373	17,352
Amortisation of goodwill*	17	500	–
Minimum lease payments under operating leases in respect of land and buildings		2,098	1,822
Auditors' remuneration:			
Current year provision		800	1,080
Underprovision in prior year		300	–
		1,100	1,080
Loss/(gain) on disposal of fixed assets		3	(211)
Write off of fixed assets		559	112
Loss on disposal of investment properties**		15,001	1,267
Revaluation deficits/(surplus)/impairment of properties:			
Revaluation deficits/(surplus) of leasehold land and buildings	14	(203)	123
Revaluation deficit of investment properties	15	42,901	–
Impairment of properties contracted/held for sale		1,659	16,163
		44,357	16,286
Gain on disposal of subsidiaries****	37(c)	–	(7,306)
Unrealised loss on other investments		753	2,766
Realised gain on other investments		(272)	–
Compensation on guaranteed profit*		5,263	–
Net rental income***		(4,977)	(8,563)

* The amortisation of goodwill for the year and compensation on guaranteed profit are included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The corresponding revenue from sales of investment properties and cost of investment properties sold are included in "Turnover" and "Cost of properties sold" respectively as presented on the face of the consolidated profit and loss account.

*** The gross rental income is included in "Turnover" as presented on the face of the consolidated profit and loss account.

**** Included in the balance for the year ended 31 December 2001 was an amount of HK$7,058,000 which had been included in "Gain on disposal of discontinued operations" as presented on the face of the consolidated profit and loss account.

8. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Fees:		
Independent non-executive directors	360	360
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	3,258	3,345
Pension scheme contributions	36	36
	3,654	3,741

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	7	6
HK$1,000,001 to HK$1,500,000	2	–
HK$1,500,001 to HK$2,000,000	–	1
	9	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES *(continued)*

Five highest paid employees

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Salaries, allowances and benefits in kind	1,448	1,517
Pension scheme contributions	24	24
	1,472	1,541

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of directors 2002	Number of directors 2001
Nil to HK$1,000,000	2	2

9. FINANCE COSTS

	Group 2002 HK$'000	Group 2001 HK$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	5,465	5,299
Loans from a jointly-controlled entity and a joint venturer	18,730	19,386
	24,195	24,685

10. TAX

Hong Kong profits tax has not been provided (2001: provided at the rate of 16%) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002 HK$'000	2001 HK$'000
Group:		
Hong Kong	–	10
Elsewhere	2,348	1,352
Overprovision in prior years	(12,587)	–
Deferred (note 33)	50	–
	(10,189)	1,362
Share of tax attributable to a jointly-controlled entity:		
Elsewhere	18,624	15,810
Tax charge for the year	8,435	17,172

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company, is HK$118,958,000 (2001: HK$16,437,000).

12. DIVIDEND

	2002 HK$'000	2001 HK$'000
Interim – Nil (2001: HK$0.01 per ordinary share)	–	2,992

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$118,932,000 (2001: net profit of HK$1,379,000), and the weighted average of 304,374,867 (2001: 299,811,970) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2001 and 2002 have not been disclosed as the share options and warrants outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	19,400	4,793	1,540	3,942	4,289	33,964
Additions	–	33	7	131	–	171
Acquisition of subsidiaries (note 37(b))	–	–	193	–	–	193
Disposals	–	–	–	(42)	–	(42)
Write off	–	(819)	–	(249)	–	(1,068)
Revaluation surplus	250	–	–	–	–	250
At 31 December 2002	19,650	4,007	1,740	3,782	4,289	33,468
Accumulated depreciation:						
At beginning of year	–	3,030	947	2,411	3,037	9,425
Provided during the year	710	603	284	577	426	2,600
Disposals	–	–	–	(38)	–	(38)
Write off	–	(343)	–	(166)	–	(509)
Reversal upon revaluation	(710)	–	–	–	–	(710)
At 31 December 2002	–	3,290	1,231	2,784	3,463	10,768
Net book value:						
At 31 December 2002	19,650	717	509	998	826	22,700
At 31 December 2001	19,400	1,763	593	1,531	1,252	24,539
Analysis of cost or valuation:						
At cost	–	4,007	1,740	3,782	4,289	13,818
At 31 December 2002 valuation	19,650	–	–	–	–	19,650
	19,650	4,007	1,740	3,782	4,289	33,468

14. FIXED ASSETS *(continued)*

The Group's leasehold land and buildings are held under the following lease terms:

	HK$'000
Hong Kong, long term leases	5,500
Elsewhere, medium term leases	14,150
	19,650

The leasehold land and buildings were revalued individually at 31 December 2002 by RHL Appraisal Ltd. ("RHL"), independent professionally qualified valuers, at an aggregate open market value of HK$19,650,000 (2001: HK$19,400,000) based on their existing use.

Revaluation surpluses of HK$757,000 and HK$203,000 have been credited to the property revaluation reserve (note 36) and the profit and loss account (note 7), respectively.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$20,430,000 (2001: HK$21,239,000).

At 31 December 2002, the Group's leasehold land and building situated in Hong Kong with a carrying value of HK$5,500,000 was pledged to secure banking facilities granted to the Group (note 32).

Subsequent to the balance sheet date, one of the Group's leasehold land and buildings situated in the People's Republic of China (the "PRC") with a carrying value of HK$5,788,000 was pledged to secure a bank loan granted to an independent third party, which in turn agreed to advance a loan of approximately HK$3,738,000 to the Group. Up to the date of this report, approximately HK$2,803,000 had been advanced to the Group.

15. INVESTMENT PROPERTIES

	Group
	HK$'000
At beginning of year	345,340
Additions	500
Disposals	(40,582)
Transfer from properties contracted for sale	1,743
Revaluation deficit	(42,901)
At 31 December 2002	264,100

The Group's investment properties are situated in the PRC and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2002 by RHL at HK$264,100,000 on an open market, existing use basis. A revaluation deficit of HK$42,901,000 arising therefrom has been charged to the profit and loss account.

As at 31 December 2001, the Group's investment properties were stated on the basis of a directors' valuation of HK$345,340,000. However, pursuant to a revaluation performed by RHL, as at 31 December 2001, the valuation of the investment properties, on an open market, existing use basis, amounted to HK$305,340,000 only. This revaluation deficit was not incorporated in the financial statements for the year ended 31 December 2001. Had the investment properties been stated on the basis of the valuation performed by RHL as at 31 December 2001, an additional revaluation deficit of HK$40,000,000 would have been charged to the profit and loss account for that year, in addition to the HK$15,133,000 deficit that was already charged to the investment property revaluation reserve for that year.

Further particulars of the Group's investment properties are included on page 72.

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK$'000	HK$'000
At beginning of year	5,484	5,184
Additions	62	300
Acquisition of subsidiaries (note 37(b))	3,898	–
At 31 December	9,444	5,484

16. PROPERTIES UNDER DEVELOPMENT *(continued)*

The Group's properties under development represent land and the associated preliminary costs incurred for development purposes. The land is held under the following lease terms:

	HK$'000
Hong Kong, long term leases	5,546
Elsewhere, long term lease	3,898
	9,444

17. GOODWILL

The amount of goodwill capitalised as an asset arising from the acquisition of subsidiaries during the year is as follows:

Group

	HK$'000
Cost:	
Acquisition of subsidiaries (note 37(b))	
and at 31 December 2002	2,520
Accumulated amortisation:	
Provided during the year	
and at 31 December 2002	500
Net book value:	
At 31 December 2002	2,020

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 January 2001 to remain eliminated against consolidated reserves and credited to the capital reserve, respectively.

The amounts of the goodwill and negative goodwill remaining in the Group's capital reserve, which are stated at cost, arising from the acquisition of subsidiaries prior to 1 January 2001, were HK$1,353,000 and HK$19,545,000, respectively, as at 1 January and 31 December 2002.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted investments, at cost	182,079	182,079
Provision for impairment	(111,784)	(53,784)
	70,295	128,295

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Hudson Group Limited	British Virgin Islands/ Hong Kong	US$50,000	100	Investment holding
Indirectly held				
All Century International Limited	British Virgin Islands/PRC	US$1	100	Provision of design services
Beijing Urban Construction Hudson Decoration Engineering Co., Ltd. (note (c))	PRC	RMB8,000,000	51	Provision of decoration services and electrical and mechanical works
Best Speed Company Limited*	Hong Kong	HK$100,000	100	Investment holding

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(continued)*				
Good Brave Investment Limited ("Good Brave")	Hong Kong	HK$10 ordinary shares HK$10,000 non-voting deferred shares (note (a))	100	Dormant
Henrich Development Limited	Hong Kong	HK$10,000	95	Property development
Hudson-China Electronic Real Estate Development (Wuhan) Co., Ltd. ("HCE") (note (d))	PRC	US$4,000,000	90	Provision of decoration services and electrical and mechanical works
Hudson Canacific Limited	Hong Kong	HK$1,000,000	100	Provision of design and decoration services
Hudson Construction Limited	Hong Kong	HK$13,000,000	100	Investment holding
Hudson Development Worldwide Limited	Hong Kong	HK$100	100	Investment holding
Hudson Development (H.K.) Limited ("HDHK")	Hong Kong	HK$10 ordinary shares HK$1,000,000 non-voting deferred shares (note (a))	100	Investment holding

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(continued)*				
Hudson Engineering System Limited	Hong Kong	HK$2	100	Investment holding
Hudson Engineering System (Wuhan) Co., Ltd. (note (b))	PRC	US$1,050,000	100	Provision of electrical and mechanical works
Hudson Finance Company Limited	Hong Kong	HK$30,000,000	100	Provision of financial services
Hudson International Hong Kong Limited	Hong Kong	HK$2	100	Investment holding
Hudson Investment (China) Limited	Samoa/ Hong Kong	US$1,000	100	Investment holding
Hudson Investment Worldwide Limited	Hong Kong	HK$100	100	Investment holding
Hudson Real Estate Management Hong Kong Limited	Hong Kong	HK$2	100	Property management
Hudson Real Estate Services Wuhan Limited (note (b))	PRC	HK$1,000,000	100	Provision of property agency services

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(continued)*				
International Management Company Limited ("IMC") (note (b))	Hong Kong	HK$1,500,000	100	Investment holding
Net Gain Development Limited	Hong Kong	HK$100	94	Investment holding
Regent Sino Development Limited	Hong Kong	HK$2	100	Dormant
Taishan Seaview Garden Development Co., Ltd.* (note (c))	PRC	US$3,600,000	65	Property development
Well Chance Investment Limited	Hong Kong	HK$10,000	100	Property holding
Wuhan Hengxin Real Estate Development Co., Ltd. (note (c))	PRC	RMB20,000,000	51	Dormant
Wuhan Huaxin Management Limited (note (c))	PRC	RMB3,000,000	51	Property management
Wuhan Huaxin Real-Estate Development Co., Ltd. ("WHRED") (note (c))	PRC	US$8,000,000	51	Property development and investment

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(a) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of Good Brave and HDHK by virtue or in respect of their holdings of such non-voting deferred shares, except at a general meeting convened for any resolution varying or abrogating any of the rights or privileges of the said non-voting deferred shares, or when the resolution to be submitted at a general meeting directly affects the rights and privileges of such holders, or is for the purpose of reducing share capital. The holders of the non-voting deferred shares are not entitled to any dividends of Good Brave and HDHK unless the profit available for distribution for the financial year exceeds HK$100,000,000,000,000 and are not entitled to any participation in the profits or assets of Good Brave and HDHK. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of Good Brave and HDHK, to a return of the capital paid-up on the non-voting deferred shares held by them after a total sum of HK$500,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of Good Brave and HDHK.

(b) These subsidiaries are registered as wholly foreign-owned enterprises under the PRC law.

(c) These subsidiaries are registered as contractual joint ventures under the PRC law.

(d) During the year, HCE changed its registration under the PRC law from a wholly foreign-owned enterprise to a co-operative joint venture.

* Acquired during the year. Further details of the subsidiaries acquired during the year are included in note 37(b) to the financial statements.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year of formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK$'000	2001 HK$'000
Share of net assets	66,438	80,763
Loan from a jointly-controlled entity	(136,486)	(78,870)
Due to a jointly-controlled entity	–	(11,336)
	(70,048)	(9,443)

An amount of HK$9,149,000 due to a jointly-controlled entity was unsecured, interest-free and was fully repaid subsequent to the balance sheet date. Such amount was classified under current liabilities as at 31 December 2002.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The loan from a jointly-controlled entity is unsecured, bears interest at the interest rate for one-year term loans quoted by the People's Bank of China and is repayable over five years. The loan is agreed to be funded out of the dividend distributions from the jointly-controlled entity for the period up to December 2007 (note 43(b)).

Particulars of the Group's jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Wuhan Plaza Management Co., Ltd. ("WPM") (note)	Corporate	PRC	49	Operation and management of a department store

Note: WPM is an equity joint venture company established by IMC, an indirectly held subsidiary of the Company, and a PRC joint venturer for a period of 20 years commencing from 29 December 1993. The registered capital of WPM amounted to US$21,000,000.

Extracts of the results and financial position of WPM, which are based on WPM's unaudited management accounts prepared under accounting principles generally accepted in Hong Kong, are as follows:

	2002 HK$'000	2001 HK$'000
Turnover	279,418	276,764
Net profit for the year	49,943	65,856
Fixed assets	77,354	97,550
Other non-current assets	146,033	99,552
Current assets	162,394	122,327
Current liabilities	220,640	170,658

20. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	–	216

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
E-Business Logistics Limited	Corporate	British Virgin Islands/ Hong Kong	40	Investment holding
LKS Holding Limited	Corporate	British Virgin Islands/ Hong Kong	50	Dormant
Store2Store Limited	Corporate	Hong Kong	40	Dormant

21. INVESTMENT SECURITIES

	Group 2002 HK$'000	Group 2001 HK$'000
Unlisted equity investments, at cost		
In Hong Kong	178	178
Outside Hong Kong	9,580	9,580
	9,758	9,758

22. PROPERTIES CONTRACTED FOR SALE

The balance represents properties pre-sold in prior years which are the subject of legal disputes with the purchasers. The sales and profits attributable to these properties have not been recognised in the Group's financial statements. Sales deposits received from these purchasers have been recorded as "Customer deposits received" under current liabilities (note 30).

23. PROPERTIES HELD FOR SALE

The balance represents properties pre-sold in prior years, which were completed during the year ended 31 December 1998, but for which the balance of the sale consideration had not yet been received and the legal completion of the respective sale and purchase agreements has not yet been effected. The Group has, in accordance with the sale and purchase agreements and based on an opinion from a PRC lawyer, seized the pre-sale deposits received.

24. CONSTRUCTION CONTRACTS

	Group	
	2002 HK$'000	2001 HK$'000
Gross amount due from contract customers	7,228	31,962
Contract costs incurred plus recognised profits less recognised losses to date	19,176	93,986
Less: Progress billings	(11,948)	(62,024)
	7,228	31,962

As at 31 December 2002, retentions held by customers for contract works amounted to approximately HK$4,584,000 (2001: HK$6,186,000).

25. ACCOUNTS RECEIVABLE

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on invoice date and net of provision, is as follows:

	2002 HK$'000	2001 HK$'000
Current	7,987	9,352
One month	168	–
Two to three months	23	193
More than three months	37,670	17,585
	45,848	27,130

Receivables from construction contracts and the sale of properties are predetermined in accordance with the provisions of relevant agreements and are contractually payable to the Group within a specified period.

26. BALANCES WITH JOINT VENTURERS

Included in the loan from a joint venturer of HK$233,876,000 (2001: HK$233,391,000) as at 31 December 2002 is an amount of HK$18,294,000 which is interest-free. Other than this, the loan from a joint venturer is unsecured, bears interest at the interest rate applicable to a one-year term loans quoted by the People's Bank of China and is repayable after 31 December 2004. During the year, the Group's interest expense paid to the joint venturer amounted to approximately HK$14,003,000 (2001: HK$14,400,000).

All other balances with joint venturers, except for an amount due to a joint venturer of HK$374,000 which bears interest at 7.8% per annum, are unsecured, interest-free and have no fixed terms of repayment.

27. OTHER INVESTMENTS

	Group	
	2002 HK$'000	2001 HK$'000
Listed equity investments in Hong Kong, at market value	716	1,470
Unlisted investment fund	–	2,768
	716	4,238

28. PLEDGED BANK DEPOSITS

As at 31 December 2002, the Group's pledged bank deposits were pledged as security for a bank loan granted to a jointly-controlled entity disposed of during the year. Subsequent to the balance sheet date, the bank loan was repaid and the pledge was released accordingly.

29. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable as at the balance sheet date, based on invoice date, is as follows:

	2002 HK$'000	2001 HK$'000
Current	1,309	377
Two to three months	731	768
More than three months	6,210	5,679
	8,250	6,824

30. CUSTOMER DEPOSITS RECEIVED

Customer deposits received represents deposits received on properties pre-sold in prior years which are the subject of legal disputes as at the date of this report (note 22). Further details of the litigations are set out in note 41 to the financial statements.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Bank overdrafts:				
Secured	3,066	10,961	–	–
Bank loans:				
Secured	–	48,307	–	40,000
Unsecured	14,968	20,701	–	–
	14,968	69,008	–	40,000
Trust receipt loans:				
Secured	4,996	4,574	–	–
Other loans:				
Secured	5,000	–	5,000	–
Unsecured	4,630	4,630	4,630	4,630
	9,630	4,630	9,630	4,630
	32,660	89,173	9,630	44,630

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Bank overdrafts repayable within one year or on demand	3,066	10,961	–	–
Bank loans repayable:				
Within one year or on demand	14,968	40,838	–	13,330
In the second year	–	14,530	–	13,330
In the third to fifth years, inclusive	–	13,640	–	13,340
	14,968	69,008	–	40,000
Trust receipt loans repayable within one year	4,996	4,574	–	–
Other loans repayable on demand	9,630	4,630	9,630	4,630
	32,660	89,173	9,630	44,630
Portion classified as current liabilities	(32,660)	(61,003)	(9,630)	(17,960)
Non-current portion	–	28,170	–	26,670

The Company's and the Group's other loan of HK$4,630,000 is unsecured and bears interest at 9.5% per annum. The remaining balance of the Group's other loan of HK$5,000,000 was secured by all the issued shares of IMC, bore interest at 3.5% per month, which was repaid subsequent to the balance sheet date.

32. BANKING FACILITIES

As at 31 December 2002, the Group's banking facilities were secured by the following:

(a) a legal charge on one of the Group's leasehold land and buildings situated in Hong Kong with a carrying value of HK$5,500,000 (note 14);

(b) a corporate guarantee executed by the Company to the extent of HK$22,000,000 (2001: HK$20,000,000) (note 40(b));

(c) a corporate guarantee executed by a jointly-controlled entity (note 42);

(d) a corporate guarantee executed by a joint venturer (note 42); and

(e) a personal guarantee executed by a director of the Company (note 42).

33. DEFERRED TAX

	Group 2002 HK$'000	Group 2001 HK$'000
Balance at beginning of year	–	–
Charge for the year (note 10)	50	–
At 31 December	50	–

The provision for deferred tax is made in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The Company and the Group have no significant potential deferred tax liabilities for which provisions have not been made.

34. SHARE CAPITAL

Shares

	2002 HK$'000	2001 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid:		
309,208,200 (2001: 299,208,200) ordinary shares of HK$0.10 each	30,921	29,921

During the year, pursuant to a subscription agreement entered into between the Company and an independent third party, who is not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates, on 7 June 2002 10,000,000 shares of HK$0.10 each were issued for cash at a subscription price of HK$1.10 per share, which represented (i) a discount of approximately 9.1% to the closing price of HK$1.21 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 June 2002, and (ii) a discount of approximately 5.7% to the average closing price of approximately HK$1.166 per share as quoted on the Stock Exchange from 24 May 2002 to 6 June 2002, both dates inclusive, being the last 10 full trading days immediately before the agreement date. The proceeds net of related expenses received by the Company from such issue of shares amounted to approximately HK$10,892,000 were used as general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$10,000,000, was credited to the share premium account (note 36).

34. SHARE CAPITAL *(continued)*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

Warrants

At the beginning of the year, the Company had 29,999,800 warrants outstanding with each warrant entitling the holder to subscribe for one ordinary share of HK$0.10 each at the subscription price of HK$1.54 per share, subject to adjustment, from the date of issue to 29 June 2002. No warrant were exercised and all these warrants lapsed during the year.

35. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries. The Scheme became effective on 10 November 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

The subscription price of the share options is determined by the directors and notified to each relevant director and employee. The subscription price should not be less than the greater of an amount equal to 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares.

No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

At the beginning of the year, there were 15,000,000 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during the period from 15 August 2000 to 14 August 2002. The subscription price payable upon the exercise of these options was HK$1.02, subject to adjustment. Included in the total 15,000,000 share options were 1,100,000 options held by Mr. Kwok Yu Kwong, James, a director of the Company who resigned subsequent to the balance sheet date. All of the other share options were held by employees of the Group. No share option were exercised and all of these share options lapsed during the year.

Share options do not confer rights on the holders either to dividends, or to vote at shareholders' meetings.

36. RESERVES

Group	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Investment property revaluation reserve HK$'000	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2001	25,942	230	29,179	15,844	1,972	4,786	71,946	149,899
Arising on repurchase of shares	(379)	–	–	–	–	–	–	(379)
Deficits on revaluation – note 15	–	–	–	(15,133)	(1,972)	–	–	(17,105)
Revaluation reserve released on disposal of investment properties	–	–	–	(711)	–	–	–	(711)
Net profit for the year	–	–	–	–	–	–	1,379	1,379
Dividend	–	–	–	–	–	–	(2,992)	(2,992)
Appropriation of reserves of a subsidiary	–	–	1	–	–	–	(1)	–
At 31 December 2001	25,563	230	29,180	–	–	4,786	70,332	130,091
Reserves retained by:								
Company and subsidiaries	25,563	230	27,432	–	–	4,786	81,720	139,731
Jointly-controlled entities	–	–	1,748	–	–	–	(9,200)	(7,452)
Associates	–	–	–	–	–	–	(2,188)	(2,188)
	25,563	230	29,180	–	–	4,786	70,332	130,091

36. RESERVES *(continued)*

Group	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Investment property revaluation reserve HK$'000	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2002	25,563	230	29,180	–	–	4,786	70,332	130,091
Issue of shares – note 34	10,000	–	–	–	–	–	–	10,000
Share issue expenses	(108)	–	–	–	–	–	–	(108)
Net loss for the year	–	–	–	–	–	–	(118,932)	(118,932)
Utilised by a jointly-controlled entity	–	–	(659)	–	–	–	–	(659)
Revaluation surplus of leasehold land and buildings	–	–	–	–	757	–	–	757
At 31 December 2002	35,455	230	28,521	–	757	4,786	(48,600)	21,149
Reserves retained by:								
Company and subsidiaries	35,455	230	27,432	–	757	4,786	(46,013)	22,647
A jointly-controlled entity	–	–	1,089	–	–	–	(183)	906
Associates	–	–	–	–	–	–	(2,404)	(2,404)
	35,455	230	28,521	–	757	4,786	(48,600)	21,149

36. RESERVES *(continued)*

Company	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	25,942	181,919	(57,962)	149,899
Arising on repurchase of shares	(379)	–	–	(379)
Net loss for the year	–	–	(16,437)	(16,437)
Dividend	–	(2,992)	–	(2,992)
At 31 December 2001 and 1 January 2002	25,563	178,927	(74,399)	130,091
Issue of shares - note 34	10,000	–	–	10,000
Share issue expenses	(108)	–	–	(108)
Net loss for the year	–	–	(118,958)	(118,958)
At 31 December 2002	35,455	178,927	(193,357)	21,025

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 10 November 1999, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and interest received are now included in cash flows from operating activities, dividends received are now included in cash flows from investing activities, and interest and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(a) Prior year adjustments *(continued)*

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in bank loans and trust receipt loans with original maturity within three months, together with the bank deposits pledged therefor, no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to reclassify pledged time deposits, bank loans and trust receipt loans amounting to HK$12,675,000, HK$13,551,000 and HK$4,574,000, respectively, previously included at that date. The movement in pledged time deposits is now included in cash flows from investing activities and that of bank loans and trust receipt loans are now included in cash flows from financing activities. The comparative cash flow statement has been changed accordingly.

(b) Acquisition of subsidiaries

	Notes	2002 HK$'000	2001 HK$'000
Net assets acquired:			
Fixed assets	14	193	–
Properties under development	16	3,898	–
Prepayments, deposits and other receivables		257	–
Cash and bank balances		6	–
Accruals and other payables		(2,696)	–
Minority interests		(578)	–
		1,080	–
Goodwill on acquisition	17	2,520	–
		3,600	–
Satisfied by:			
Other receivables		3,600	–

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	6	–

The subsidiaries acquired during the year made no significant contribution to the Group in respect of turnover or contribution to the consolidated loss from operating activities.

(c) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets disposed of:		
Fixed assets	–	115
Cash and bank balances	–	209
Pledged bank deposits	–	7,800
Accounts receivable	–	12,777
Prepayments, deposits and other receivables	–	641
Interest–bearing bank borrowings	–	(9,627)
Due to a subsidiary	–	(2,500)
Tax payable	–	(18)
Accounts payable	–	(4,531)
Accruals and other payables	–	(657)
Minority interests	–	(1,337)
		2,872
Gain on disposal of subsidiaries	–	7,306
	–	10,178
Satisfied by:		
Cash	–	6,000
Other investments	–	4,000
Investment securities	–	178
	–	10,178

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK$'000	2001 HK$'000
Cash consideration	–	6,000
Cash and bank balances disposed of	–	(209)
Pledged bank deposits disposed of	–	(7,800)
Interest–bearing bank borrowings disposed of	–	9,627
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	7,618

The subsidiaries disposed of during the year ended 31 December 2001 contributed HK$20,712,000 and HK$5,215,000 to the Group's turnover and consolidated profit from operating activities, respectively, for that year.

(d) Major non-cash transactions

During the year, the Company acquired certain subsidiaries at a consideration of HK$3,600,000, which was satisfied by other receivables of the same amount. Further details of which are set out in note 37(b) above.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	2,353	5,636
In the second to fifth years, inclusive	2	4,990
After five years	–	2,180
	2,355	12,806

38. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years. The terms of the leases generally also require the Group to pay security deposits.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	1,926	2,299
In the second to fifth years, inclusive	1,459	3,294
	3,385	5,593

Subsequent to the balance sheet date, on 31 March 2003, the Group terminated its original rental agreement with its landlord and, on the same day, entered into a new agreement. After taking into account the new arrangement, the Group's total future minimum lease payments under non-cancellable operating leases payable within one year and in the second to fifth years, inclusive, would have amounted to HK$802,000 and HK$315,000 respectively.

At the balance sheet date, the Company did not have any significant operating lease commitments.

In addition, the Group's shares of a jointly-controlled entity's own total future minimum lease payments under non-cancellable operating lease commitments, payable to a joint venturer, which was not included in the above, were as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	27,614	26,435
In the second to fifth years, inclusive	89,917	117,531
	117,531	143,966

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the balance sheet date:

	2002 HK$'000	2001 HK$'000
Capital commitments in respect of investment in a subsidiary contracted, but not provided for	–	3,000

At the balance sheet date, the Company did not have any significant commitments.

40. CONTINGENT LIABILITIES

As at 31 December 2002, the Group and the Company had the following contingent liabilities:

(a) Guarantees to the extent of approximately HK$24,137,000 (2001: HK$11,868,000) were given by the Group to certain banks for mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group. Subsequent to the balance sheet date, in March 2003, one of the banks issued a demand letter requesting the Group to pay the guaranteed amount of approximately HK$10 million. However, no further action has been taken by the bank against the Group since then. The directors, based on the legal opinion from a PRC lawyer and the fact that the Group has the right to seize and realise the mortgaged properties (with an estimated current market value of approximately HK$19 million as at 31 December 2002) to repay the bank, do not consider it necessary to make a provision in respect of such claims as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(b) A corporate guarantee of HK$22,000,000 (2001: HK$20,000,000) was executed by the Company for banking facilities granted to a subsidiary of the Group, which were utilised to the extent of HK$11,544,000 at the balance sheet date (note 32).

41. LITIGATION

(i) During 1997, buyers of certain pre-sold units of the Group's properties under development alleged that the Group had breached certain terms of the relevant property sale and purchase agreements and, as a result, claimed against the Group for, inter alia, a refund of the pre-sale deposits paid, legal expenses incurred and any other resulting financial loss. Based on the legal advice from the Group's lawyer, the directors were then and remain of the opinion that such claims were unfounded and the Group has strong grounds for defending the claims and had thus proceeded to defend them vigorously.

Judgements in respect of most of the above claims have been awarded in favour of the Group. However, the plaintiffs have filed applications to appeal to a higher court and the appeal proceedings were still in progress as at the date of this report. The Group's lawyer is confident about the successful outcome of the Group in defending the claims. Based on the legal advice from the Group's lawyer, the directors are of the opinion that the Group has a good chance of success in the appeal proceedings. Accordingly, no provision has been made by the Group in respect of such claims.

41. LITIGATION *(continued)*

(ii) In December 2002, a former director of a wholly-owned subsidiary of the Company commenced litigation in the PRC against the Group, and claimed an alleged bonus was due to him of RMB19 million, representing 5% of certain construction contracts undertaken by the Group in prior years according to a supplementary agreement attached to the employment contract entered into with the Group in 1995. Up to the date of this report, no conclusion has been drawn on the litigation. Based on the legal opinion from a PRC lawyer, the directors are in the opinion that such claim is unfounded. No provision is made accordingly.

42. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had the following significant transactions with related parties during the year:

	2002 HK$'000	2001 HK$'000
Interest expense paid to a jointly-controlled entity	4,727	4,986

Interest was paid to WPM, a jointly-controlled entity of the Group in respect of the loans granted to certain subsidiaries of the Company. Further details of the loans, including the terms thereof, are set out in note 19 to the financial statements.

In addition, certain of the Group's banking facilities were supported by a personal guarantee executed by a director of the Company and corporate guarantees executed by a jointly-controlled entity and a joint venturer (note 32).

43. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:

(a) On 21 January 2003, a placing agreement was entered into between Koffman Securities Limited, the placing agent, and the Company, pursuant to which 49,000,000 shares of HK$0.10 each were placed to several investors who are not connected persons as defined in the Listing Rules, at a price of HK$0.225 per share (the "Placing"). The net proceeds from the Placing of approximately HK$10.5 million will be used as general working capital and/or for settlement of the Group's short term indebtedness.

(b) Pursuant to a debt settlement agreement entered into between certain subsidiaries of the Company, a joint venturer and WPM on 13 February 2003, the parties agreed to restructure the loan from WPM (note 19) into a term loan at an interest rate equivalent to that of a one-year term loan quoted by the People's Bank of China, and repayable over five years through dividend distributions by WPM for the period up to December 2007. In consideration for the joint venturer giving consent to and arranging the debt settlement agreement, the Group agreed to pay to the joint venturer an arrangement fee of HK$13.9 million, which will also be settled through the dividend distribution from WPM and recorded in the Group's profit and loss account for the year ending 31 December 2003.

43. POST BALANCE SHEET EVENTS *(continued)*

(c) Pursuant to an agreement entered into between Ching Hing (Holdings) Limited ("Ching Hing") and the Company for the sale and purchase of interest in South Field on 27 March 2001, the Company agreed to sell its 66% interest in South Field to Ching Hing and to execute a guarantee to the extent of HK$6,000,000 (with HK$3,000,000 for each year after the disposal date) in favour of Ching Hing for any shortfall in the net profit of South Field below HK$5,000,000 during each of the two years after the disposal date.

On 7 January 2003 and 11 March 2003, Ching Hing applied for winding-up petition of the Company and a subsidiary of the Company, respectively, for recovery of part of the outstanding balance which amounted to HK$2,200,000 in aggregate. Subsequently, on 25 March 2003, Ching Hing, the Company and the subsidiary entered into a settlement agreement, pursuant to which Ching Hing accepted HK$5,734,000 (including compensation of guaranteed profits for two years and the costs in relation to the winding-up proceedings).

(d) On 10 April 2003, a loan agreement was entered into between an independent third party (the "Lender") and the Company whereby the Lender made available to the Company a loan facility up to HK$20 million for a period of six months, being secured by the following:

(i) A debenture incorporating a floating charge on all assets of the Company and a first legal charge on the entire issued capital of IMC and HDHK, subsidiaries of the Company;

(ii) A debenture incorporating a floating charge on all assets of IMC and a first legal charge on its 49% shareholding in WPM;

(iii) A first legal charge on the 49% joint venture rights in WPM including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WPM;

(iv) A debenture incorporating a floating charge on all assets of HDHK and a first legal charge on its 51% shareholding in WHRED; and

(v) A first legal charge on the 51% joint venture rights in WHRED including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WHRED.

In the opinion of the directors, the above legal charges do not prohibit the use of dividends from WPM for settlement of loans from WPM as set out in note 43(b) above.

(e) In April 2003, the Group entered into conditional sales and purchase agreements with independent third parties to disposal of its 100% and 95% equity interests in Best Speed Company Limited and Henrich Development Limited at a consideration of HK$3,986,000 and HK$9,500 respectively. No material gains or losses arose therefrom.

43. POST BALANCE SHEET EVENTS *(continued)*

(f) In May 2003, the Group entered into a conditional sale and purchase agreement with an independent third party to dispose of its entire interests in Hudson Canacific Limited together with its then subsidiary, Well Chance Investment Limited, for a consideration of HK$10,000. No material gains or losses derived therefrom.

(g) The Group entered into a conditional sale and purchase agreement with an independent third party for the acquisition of a 17.95% (approximately) equity interest in Sycamore which indirectly holds controlling interests in a property investment company in Beijing, the PRC, 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 and the transfer of a 60% of Hudson Finance's interest in the shareholder's loan due to Hudson Development Worldwide Limited, its then immediate holding company. In addition, the Group is entitled to require the vendor to purchase all of its remaining 40% interests in Hudson Finance and the Hudson Finance shareholder's loan at a cash consideration of HK$31.4 million in aggregate at any time following the completion up to 31 March 2004.

44. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2003.