

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31 December 2002, except that the Group has adopted SSAP 2.112 (Revised) "Income taxes" which becomes effective for the current accounting period.

SSAP 2.112 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The adoption of the revised SSAP 2.112 has had no material impact on these condensed consolidated interim financial statements and no prior period adjustments have been made accordingly.

## 2. 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 segment engages in the development of properties for sale;
- (b) the property investment 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 engaged in the trading of textile products.

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.

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.

## 2. Segment information (continued)

### (a) Business segments

The following tables present revenue and results for the Group's business segments.

Six months ended 30 June 2003

	Property development (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Property management and agency services (Unaudited) HK\$'000	Construction (Unaudited) HK\$'000	General trading (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:							
Sales to external customers	-	5,338	4,054	2,801	-	-	12,193
Segment results	-	(5,025)	166	(532)	-	-	(5,391)
Interest income							1
Unallocated expenses							(16,025)
Loss from operating activities							(21,415)
Finance costs							(10,322)
Share of profits and losses of:							
Jointly-controlled entities							27,582
Loss before tax							(4,155)
Tax							(7,758)
Loss before minority interests							(11,913)
Minority interests							4,382
Net loss from ordinary activities attributable to shareholders							(7,531)

## 2. Segment information (continued)

### (a) Business segments (continued)

Six months ended 30 June 2002

	Property development (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Property management and agency services (Unaudited) HK\$'000	Construction (Unaudited) HK\$'000	General trading (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:							
Sales to external customers	5,390	2,376	4,388	29,170	-	-	41,324
Intersegment sales	-	-	7	-	-	(7)	-
Total	5,390	2,376	4,395	29,170	-	(7)	41,324
Segment results	(8,262)	(1,545)	1,126	(543)	(796)	-	(10,020)
Interest income							86
Loss from operating activities							(9,934)
Finance costs							(4,902)
Share of profits and losses of:							
Jointly-controlled entities	201	-	-	-	-	-	201
Unallocated amounts on jointly-controlled entities							25,582
Associates							(167)
Profit before tax							10,780
Tax							(8,418)
Profit before minority interests							2,362
Minority interests							(562)
Net profit from ordinary activities attributable to shareholders							1,800

## 2. Segment information (continued)

### (b) Geographical segments

The following table presents revenue from operation by geographical segments.

	<b>Turnover</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Hong Kong	–	1,467
Elsewhere in the People's Republic of China (the "PRC")	<b>12,193</b>	39,857
	<b>12,193</b>	41,324

## 3. Other revenue

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>1</b>	86
Others	<b>187</b>	92
	<b>188</b>	178

**4. Loss from operating activities**

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Amortisation of goodwill	<b>250</b>	—
Gain on disposal of subsidiaries	<b>(8,486)</b>	—
Loss on disposal of investment properties	<b>5,948</b>	—
	<b>—</b>	<b>—</b>

**5. Finance costs**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	<b>2,674</b>	2,543
Loans from a jointly-controlled entity and a joint venturer	<b>7,648</b>	2,359
	<b>10,322</b>	4,902

## 6. Tax

	Six months ended 30 June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Group:		
Elsewhere other than in Hong Kong	201	326
Share of tax attributable to a jointly-controlled entity:		
Elsewhere other than in Hong Kong	7,557	8,092
Tax charge for the period	7,758	8,418

Hong Kong profits tax has not been provided (2002: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the period. 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.

## 7. 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 period of HK\$7,531,000 (2002: net profit of HK\$1,800,000) and the weighted average of 352,793,835 (2002: 299,760,686) ordinary shares in issue during the period.

Diluted earnings/(loss) per share amounts for the six months ended 30 June 2003 and 2002 have not been disclosed as the share options and warrants outstanding during these periods had an anti-dilutive effect on the basic earnings/(loss) per share for these periods.

## 8. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

## 9. 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:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Current	–	7,987
One month	–	168
Two to three months	–	23
Over three months	<b>46,486</b>	37,670
	<b>46,486</b>	45,858

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.

## 10. Accounts payable

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

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Current	–	1,309
Two to three months	–	731
Over three months	<b>4,723</b>	6,210
	<b>4,723</b>	8,250



# 11. Share capital

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000	100,000
Issued and fully paid:		
358,208,200 (2002: 309,208,200) ordinary shares of HK\$0.10 each	35,821	30,921

On 21 January 2003, 49,000,000 new shares of HK\$0.10 each were allotted and issued at a price of HK\$0.225 each. The net proceeds from the new issue of shares of approximately HK\$10.6 million were used as general working capital and for settlement of the Group's short term indebtedness. The premium of HK\$6,125,000, being the excess of the consideration over the nominal value of the shares issued, was credited to the share premium account.

## 12. Reserves

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2003	35,455	230	28,521	757	4,786	(48,600)	21,149
Issue of shares	6,125	-	-	-	-	-	6,125
Share issue expenses	(430)	-	-	-	-	-	(430)
Released on disposal of subsidiaries	-	-	19	-	83	-	102
Net loss for the period	-	-	-	-	-	(7,531)	(7,531)
At 30 June 2003	41,150	230	28,540	757	4,869	(56,131)	19,415
Reserves retained by:							
Company and subsidiaries	41,150	230	27,451	757	4,869	(61,136)	13,321
A jointly-controlled entity	-	-	1,089	-	-	7,409	8,498
Associates	-	-	-	-	-	(2,404)	(2,404)
	41,150	230	28,540	757	4,869	(56,131)	19,415

## 13. Banking facilities

As at 30 June 2003, the Group's banking facilities were secured by the following:

- (1) pledged bank deposit of the Group in the amount of approximately HK\$5,005,000;
- (2) a debenture incorporating a floating charge on all assets of the Company and a first legal charge on the entire issued share capital of International Management Company Limited ("IMC") and Hudson Development (HK) Limited ("HDL"), wholly-owned subsidiaries of the Company;
- (3) a debenture incorporating a floating charge on all assets of IMC and a first legal charge on its 49% shareholding in Wuhan Plaza Management Co., Ltd. ("WPM"), a jointly-controlled entity of the Group;

**13. Banking facilities** *(continued)*

- (4) 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;
- (5) a debenture incorporating a floating charge on all assets of HDL and a first legal charge on its 51% shareholding in Wuhan Huaxin Real Estate Development Co., Ltd. ("WHRED");
- (6) 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;
- (7) a corporate guarantee executed by a jointly-controlled entity; and
- (8) a corporate guarantee executed by a joint venturer.

**14. Contingent liabilities**

As at 30 June 2003, guarantees to the extent of approximately HK\$23,030,000 given by the Group to certain banks for mortgage loan facilities granted by the banks to certain buyers of the properties developed by the Group. Firstly in March 2003 and subsequently in August 2003, one of the banks issued demand letters requesting the Group to pay the guaranteed amount of approximately HK\$13.5 million as at 31 August 2003. The directors, based on the legal opinion obtained from a PRC lawyer in April 2003 and the fact that the Group has the right to seize and realise the mortgaged properties 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.

**15. Litigation**

- (a) 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 claim.

- (b) 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.

## 16. Operating lease arrangements

### (a) As lessor

At 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within one year	<b>2,825</b>	2,353
In the second to fifth years, inclusive	<b>4</b>	2
	<b>2,829</b>	2,355

### (b) As lessee

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2003 (Unaudited) HK\$'000</b>	31 December 2002 (Audited) HK\$'000
Within one year	<b>252</b>	1,926
In the second to fifth years, inclusive	<b>84</b>	1,459
	<b>336</b>	3,385

## 17. Commitments

Other than the operating lease commitments as set out in note 16(b) above, the Group did not have any significant commitments as at 30 June 2003 (2002: Nil).

## 18. Related party transactions

Other than as disclosed elsewhere in the interim financial statements, the Group had the following transactions with related parties during the period:

		Six months ended	
		30 June	
		2003	2002
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
Interest expense paid to a jointly-controlled entity	1	1,284	2,359
Arrangement fee for debt settlement agreement paid to a joint venturer	2	13,738	—

Notes:

- (1) Interest was paid to Wuhan Plaza Management Co., Ltd ("WPM"), a jointly-controlled entity of the Group, in respect of the loans granted to certain subsidiaries of the Company. The loan is unsecured and bears interest at the interest rate for one-year term loans quoted by the People's Bank of China. Please also refer to note (2) below for further details of the loan.
- (2) Pursuant to a debt settlement agreement entered into between certain subsidiaries of the Company, WDSG and WPM on 13 February 2003, the parties agreed to restructure the loan from WPM 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 the period up to December 2007 through dividend distributions by WPM. In consideration for WDSG giving consent to and arranging the debt settlement agreement, the Group agreed to pay to WDSG an arrangement fee of HK\$13,738,000, which would be settled through the dividend distribution from WPM.

## 19. Comparative amounts

Certain comparative amounts have been restated to conform with the current period's presentation.

## 20. Approval of the interim financial statements

The unaudited condensed interim financial statements were approved and authorised for issue by the board of directors on 26 September 2003.