

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 Institute of Certified Public 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 2003.

2. Segment information

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 investment segment engages in property leasing;
- (b) the property management and agency services segment provides property management and agency services;
- (c) 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.

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

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 2004

	Property investment (Unaudited) HK\$'000	Property management and agency services (Unaudited) HK\$'000	Construction (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	1,097	3,828	10,119	15,044
Segment results	13,676	944	15	14,635
Interest income				16
Other unallocated revenue				1,476
Unallocated expenses				(2,173)
Profit from operating activities				13,954
Finance costs				(8,969)
Share of profit of a jointly-controlled entity				25,374
Profit before tax				30,359
Tax				(6,077)
Profit before minority interests				24,282
Minority interests				(9)
Net profit from ordinary activities attributable to shareholders				24,273

2. Segment information (continued)(a) *Business segments (continued)**Six months ended 30 June 2003*

	Property investment (Unaudited) HK\$'000	Property management and agency services (Unaudited) HK\$'000	Construction (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 profit of a jointly-controlled entity				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)

(b) Geographical segments

The following table presents revenue from operation by geographical segments.

	Turnover	
	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Hong Kong	–	–
Elsewhere in the People's Republic of China (the "PRC")	15,044	12,193
	15,044	12,193

3. Other revenue

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Interest income	16	1
Others	1,658	187
	1,674	188

4. Profit/(loss) from operating activities

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

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000
Amortisation of goodwill	–	250
Gain on disposal of subsidiaries	–	(8,486)
Loss on disposal of investment properties	683	5,948

5. Finance costs

	Six months ended	
	30 June	30 June
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	3,129	2,674
Loans from a jointly-controlled entity and a joint venturer	5,840	7,648
	8,969	10,322

6. Tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2004. Hong Kong profits tax had not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2003. 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.

	Six months ended	
	30 June	30 June
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge for the period		
Hong Kong	58	—
Elsewhere	183	201
	241	201
Share of tax attributable to a jointly-controlled entity	5,836	7,557
Total tax charge for the period	6,077	7,758

7. Earnings/(loss) per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$24,273,000 (2003: net loss of HK\$7,531,000) and the weighted average of 410,029,343 (2003: 352,793,835) ordinary shares in issue during the period.

Diluted earnings/(loss) per share amounts for the six months ended 30 June 2004 and 2003 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 2004 (2003: 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:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current	1,862	2,760
One month	—	—
Two to three months	428	—
Over three months	8,486	4,287
	10,776	7,047

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:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current	1,192	2,069
Two to three months	—	—
Over three months	2,838	5,935
	4,030	8,004

11. Share capital

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Authorised: 25,000,000,000 ordinary shares of HK\$0.10 each	2,500,000	2,500,000
Issued and fully paid: 421,934,200 (2003: 358,208,200) ordinary shares of HK\$0.10 each	42,193	35,821

On 4 February 2004, 63,726,000 new shares of HK\$0.1 each in the Company were issued at HK\$0.12 per share, for the purpose of satisfying the consideration for the acquisition of the certain properties.

Share Options

On 12 March 2004, 27,416,000 share options were granted under the Share Option Scheme to certain directors and employees of the Group. The exercise price of the share options is HK\$0.13 per share and the exercise period commenced on 12 September 2004 and will expire on 12 September 2006. The price of the Company's shares at the date of grant was HK\$0.13.

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 2004	41,149	230	26,731	–	8,724	(137,570)	(64,736)
Issue of shares (note 11)	1,275	–	–	–	–	–	1,275
Revaluation surplus	–	–	–	19,705	–	–	19,705
Net profit for the period	–	–	–	–	–	24,273	24,273
At 30 June 2004	42,424	230	26,731	19,705	4,724	(113,297)	(19,483)
Reserves retained by: Company and subsidiaries	42,424	230	25,642	19,705	4,724	(143,898)	(51,173)
A jointly-controlled entity	–	–	1,089	–	–	30,601	31,690
	42,424	230	26,731	19,705	4,724	(113,297)	(19,483)
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. Interest-bearing bank and other borrowings

As at 30 June 2004, an other loan of the Group amounted to HK\$20,000,000 bears interest at the higher of (i) 2% per month; or (ii) the aggregate of the annual rate announced or applied by the Hongkong and Shanghai Banking Corporation Limited as its prime rate of interest in Hong Kong for lending of Hong Kong Dollar(s) to its prime corporate customers plus 19% per annum; or (iii) 3-month HIBOR plus 22.596% per annum, and is secured by:

- (1) 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 (H.K.) Limited ("HDHK"), wholly-owned subsidiaries of the Company;
- (2) 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;
- (3) 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;
- (4) a debenture incorporating a floating charge on all assets of HDHK and a first legal charge on its 51% shareholding in Wuhan Huaxin Real Estate Development Co., Ltd. ("WHRED");
- (5) 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;
- (6) a first legal charge on the entire issued share capital of Ever Park Development Limited, a wholly-owned subsidiary of the Company;
- (7) a debenture incorporating a floating charge on all assets of Ever Park Development Limited; and
- (8) a personal guarantee executed by a director.

Another loan of HK\$4,630,000 as at 30 June 2004 is unsecured and bears interest at 9.5% per annum.

14. Contingent liabilities

As at 30 June 2004, guarantees to the extent of approximately HK\$20 million were given by the Group to two banks for mortgage loan facilities granted by the banks to the buyers of properties developed by the Group.

15. Litigation

- (a) On 25 June 2004, the High Court in Hubei declined our appeal in relation to the judgements of claims against the Group by the buyers of certain pre-sold units of the Group's properties under development in 1997, and declared that the original judgement is still in force. Based on the legal opinion obtained from the PRC lawyer, there are still certain potential litigations against the Group in relation to the pre-sold units of the properties.

In August 2004, the buyers applied to High Court in Hubei for compulsory execution. The executor alleged that WHRED is unable to repay the deposits and compensation to the buyers. As disclosed in the Annual Report 2003, certain properties of WHRED were ordered to transfer to WPM pursuant to an arbitration issued by the Arbitration Commission of Wuhan (the "Arbitration Awards") which the Group is currently in the process of taking legal action to reverse the Arbitration Awards. The High Court in Hubei may proceed to combine the execution of the two cases. According to the PRC lawyer's opinion, the execution is still in process and no conclusion has been drawn.

15. Litigation *(continued)*

- (b) In July 1997, Bank of East Asia, Shanghai Branch ("BEASH") provided legal charge facilities to certain purchasers (the "Purchasers") of the residential and office units of Wuhan Plaza (the "Building"). WHRED as the Developer had executed a buy-back guarantee ("Guarantee") in favour of BEASH to the due observance and performance by the buyers of the mortgage documentation and to undertake the liabilities of the buyers. A Deed of Undertaking was executed by HDHK, indirect wholly-owned subsidiary of the Company, and Mr. Choi Wai Him, former Chairman of the Group as additional security in favour of BEASH, under which HDHK and Mr. Choi shall pay to BEASH the total outstanding principal and interest including default interest and other costs, charges including taxes and government imposts, fees and expenses (the "Outstanding Indebtedness") due to BEASH upon default of the Purchasers or WHRED under the Guarantee.

Currently, BEASH commenced litigation in Shanghai against HDHK and claimed that the aggregate Outstanding Indebtedness as at 15 March 2004 for around HK\$933,000 in accordance with two sets of Summons issued by the Court in Shanghai was due to BEASH.

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Based on the opinion of the Group's lawyers, the Outstanding Indebtedness should firstly be repaid by the sale proceeds of the properties under charge, if the value of properties under charge is insufficient to cover the Outstanding Indebtedness, any such shortfall should then be settled by WHRED, HDHK and Mr. Choi Wai Him (collectively called "Guarantors"). The Court in Shanghai is inclined to agree with the opinion of the Group's lawyers. As the undertaken amount by the Guarantors has not been confirmed, the Group has not yet made any provision in this matter.

- (c) In December 2002, a former director of a wholly-owned subsidiary commenced litigation in the PRC against the Group, and claimed that an alleged bonus of RMB19 million was due to him, according to a supplementary agreement attached to the employment contract entered into with the Group in 1995. Currently, the litigation is still in progress and no conclusion has been drawn on the litigation.

Based on the legal opinion from the PRC lawyer, the directors are in the opinion that the court will ultimately decline such claim and accordingly, no provision has been made.

15. Litigation *(continued)*

- (d) In May and June 2004, applications to the Court of Wuhan to reverse the two Arbitration Awards issued by the Arbitration Commission of Wuhan to WHRED, WPM and Wuhan Department Store Group Company Limited (a "Joint Venturer", which holds the remaining 49% and 51% interest in WHRED and WPM respectively) on 26 November 2003 and 10 December 2003 were submitted. Details of which are set out in the Group's financial statements for the year ended 31 December 2003. The legal proceedings are still in process.

As detailed in the Group's financial statements for the year ended 31 December 2003, the Group has taken legal actions against the Joint Venturer in relation to the nomination of directors by the Group for certain subsidiaries and a jointly controlled entity. On 16 September 2004, the Group received the Arbitration Award issued by Arbitration Commission of Beijing in relation to Wuhan Huaxin Management Limited ("WHM"), a 51% subsidiary of the Company. Based on the Arbitration Award, Hudson International Hong Kong Limited ("HIHK"), the immediate holding company of WHM and a wholly-owned subsidiary of the Company, has its rights to nominate directors to WHM and engage auditors to conduct review of WHM's accounts at the expense of HIHK and the Joint Venturer should pay the charge of arbitration.

In addition, arbitration proceedings in Beijing against the Joint Venturer relating to the nomination of directors to WHRED and WPM are still in progress. Directors are in the opinion that the judgements of the arbitration proceedings in Beijing relating to WHRED and WPM will be in favour of the Group.

- (e) In September 2003, due to the default in payments by certain borrowers, one of the banks (the "Bank") commenced legal action against WHRED requesting WHRED to pay the guaranteed amount of approximately HK\$6.4 million (including a principal of HK\$4.2 million and an interest of HK\$2.2 million as calculated by the Bank). Based on the legal opinion from a PRC lawyer, the amount payable by the Group would be limited to the outstanding loans after the sales proceeds from the mortgaged properties. As at 30 June 2004, the current market value of the subject mortgaged properties amounted to approximately HK\$4.7 million. In addition, according to the PRC lawyer, the calculation of the interest payable of HK\$2.2 million is not in accordance with the PRC laws. The directors estimated that the actual amount of interest payable in this regard would not be more than HK\$1.3 million. In addition, the directors consider that it is probable for the Group and/or the Bank to recover the shortfall from the buyers. Accordingly, the directors do not expect significant outflow of resources at this stage and no provision has been made.

16. Operating lease arrangements*(a) As lessor*

At 30 June 2004, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	3,607	2,391
In the second to fifth years, inclusive	1,171	81
	4,778	2,472

(b) As lessee

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Within one year	11	1,926
In the second to fifth years, inclusive	–	1,459
	11	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 2004 (2003: 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	
		2004	2003
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Interest expense paid to a jointly-controlled entity	1	2,442	1,284
Arrangement fee for debt settlement agreement paid to a joint venturer	2	—	13,738

Notes:

- (1) Interest was paid to 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, the Joint Venturer 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 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\$13,738,000, which was settled through the dividend distribution from WPM.

19. Approval of the interim financial statements

The unaudited condensed interim financial statements were approved and authorised for issue by the board of directors on 27 September 2004.