1. CORPORATE INFORMATION

The registered office of the Company is located at the office of Caledonian Bank & Trust Limited, P.O. Box 1043, George Town, Grand Cayman, the Cayman Islands, British West Indies.

During the year, the Group was involved in the following principal activities:

– Provision of travel and travel-related services
– Property development and agency services
– Hotel investment and management
– Provision of financial services and securities broking

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

The following recently-issued 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 of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) 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 statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) 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 to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the SSAP 11 (Revised) has had no material effect on the financial statements.

SSAP 15 (Revised) 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 to 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. Further details of these changes are included in the accounting policy "Foreign currencies" in note 3 and in note 35(a) 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 the recognition of an accrual for paid holiday carried forward by the Group's employees as at the balance sheet date. This SSAP has had no material effect on amounts previously reported in the prior year's financial statements.

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 as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st 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.

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 Company's interests 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 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 over the joint venture company;

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

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's 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 less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, 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 are 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 the net assets under the equity method of accounting less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or 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 are 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/negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost 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. 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 1st 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 1st 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.

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 1st January, 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the goodwill reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the goodwill reserve. Negative goodwill on acquisitions subsequent to 1st 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 reserves at the time of acquisition is written back and included in the calculation of gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, 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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and 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 asset has 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 an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Land held under long term leases	Over the remaining lease terms
Buildings	2% to 5%
Office furniture, fixtures and equipment	20% to $33^1/_3$%
Hotel plant and equipment	5% to 20%
Motor vehicles	20%

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 value on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of the 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.

Upon the 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.

Properties under development

Properties under development are stated at cost, which comprises land cost and development expenditure, less impairment losses.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

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.

Long term investments

Long term investments in listed and unlisted equity securities and other unlisted securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories, principally comprising foodstuffs, liquor and other consumables, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

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 until its realisation is assured beyond reasonable doubt.

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

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 profit and loss account 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 to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange realignment reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to 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 to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement, further details of which are included in note 35(a) to the financial statements.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has not resulted in a prior year adjustment as this has had no material effect on amounts previously reported in the prior year's financial statements.

Pension schemes

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 MPF 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.

Prior to the MPF Scheme becoming effective on 1st December, 2000, the Group operated a defined contribution retirement benefits scheme (the "ORSO Scheme") for those employees who were eligible to participate in this scheme. The ORSO Scheme operated in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. With effect from 1st December, 2000, the Group has operated both schemes and those employees who were eligible to participate in the ORSO Scheme are also eligible to participate in the MPF Scheme.

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:

(a) income from tour services is recognised upon the departure date of each tour;

(b) income from sales of air tickets and hotel bookings is recognised when the related tickets are issued and hotel bookings confirmed, respectively;

(c) income from hotel operations is recognised as the related services are performed;

(d) income from the sale of properties and in the case of pre-sales of properties, proceeds from pre-sales as adjusted to reflect the stage of completion, are recognised on completion of binding sale agreements;

(e) commission and visa income are recognised in the period in which the services are rendered;

(f) rental income is recognised on the straight-line basis over the lease terms;

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

(h) dividends are recognised when the shareholders' right to receive payment has been established.

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.

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 other business segments. Summary details of the business segments are as follows:

(a) The travel and travel-related services segment provides outbound tour services, booking of air tickets and hotel services and other travel-related services;

(b) The property development and agency services segment comprises the development and sales of properties and the provision of property agency services;

(c) The hotel investment and management segment comprises the operation of hotels and the provision of hotel management services;

(d) The financial services segment comprises the provision of financial services and securities broking; and

(e) The corporate and other businesses segment includes rental income and general corporate expense items.

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

Intersegment sales are transacted with reference to the prevailing market rates.

(a) Business segments

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

	Travel and travel-related services		Property development and agency services		Hotel investment and management		Financial services		Corporate and other businesses		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**489,964**	548,081	**84,210**	149,585	**28,598**	24,578	**914**	1,245	**184**	842	**—**	—	**603,870**	724,331
Intersegment sales	**—**	—	**—**	—	**—**	—	**—**	—	**3,215**	4,646	**(3,215)**	(4,646)	**—**	—
Other revenue	**6,394**	5,858	**3,335**	3,264	**—**	465	**6,804**	4,314	**306**	—	**—**	—	**16,839**	13,901
Total revenue	**496,358**	553,939	**87,545**	152,849	**28,598**	25,043	**7,718**	5,559	**3,705**	5,488	**(3,215)**	(4,646)	**620,709**	738,232
Segment results	**4,455**	4,341	**24,413**	40,630	**966**	(5,835)	**1,382**	(1,657)	**1,544**	(123,244)	**—**	(290)	**32,760**	(86,055)
Interest and dividend income													**4,247**	4,419
Unallocated expenses													**(14,864)**	(14,239)
Profit/(loss) from operating activities													**22,143**	(95,875)
Finance costs													**(6,870)**	(7,696)
Share of profits and losses of associates	**(45)**	1	**230**	(3)	**4,965**	1,131	**—**	—	**3,267**	(3,208)	**—**	—	**8,417**	(2,079)
Share of losses of jointly-controlled entities	**(89)**	(323)	**(1,082)**	(198)	**—**	—	**—**	—	**—**	—	**—**	—	**(1,171)**	(521)
Profit/(loss) before tax													**22,519**	(106,171)
Tax													**(7,857)**	(3,851)
Profit/(loss) after tax													**14,662**	(110,022)
Minority interests													**(12,569)**	(15,212)
Net profit/(loss) from ordinary activities attributable to shareholders													**2,093**	(125,234)

	Travel and travel-related services		Property development and agency services		Hotel investment and management		Financial services		Corporate and other businesses		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**167,662**	172,116	**323,308**	387,756	**104,735**	96,808	**60,922**	67,411	**354,921**	393,651	**(444,880)**	(494,527)	**566,668**	623,215
Interests in associates	**(593)**	78	**376**	127	**105,968**	95,191	**—**	—	**—**	(3,267)	**—**	—	**105,751**	92,129
Interests in jointly-controlled entities	**1,334**	1,645	**7,891**	10,379	**—**	—	**—**	—	**—**	—	**—**	—	**9,225**	12,024
Unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**22,406**	20,817
Total assets													**704,050**	748,185
Segment liabilities	**272,011**	286,436	**55,705**	119,913	**66,451**	67,448	**14,200**	11,510	**153,997**	184,012	**(444,880)**	(494,527)	**117,484**	174,792
Unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**197,724**	185,167
Total liabilities													**315,208**	359,959
Other segment information:														
Capital expenditure	**237**	453	**1,045**	548	**680**	14,588	**19**	81	**239**	437	**—**	—	**2,220**	16,107
Depreciation	**821**	1,323	**1,110**	1,418	**2,414**	2,239	**37**	28	**2,281**	3,833	**—**	—	**6,663**	8,841
Amortisation	**—**	—	**—**	—	**—**	781	**145**	—	**—**	—	**—**	—	**145**	781
Impairment losses recognised in profit and loss account	**—**	1,000	**—**	—	**—**	—	**1,091**	339	**—**	119,108	**—**	—	**1,091**	120,447
Revaluation deficit of investment properties recognised in profit and loss account	**—**	—	**—**	—	**—**	—	**—**	—	**—**	4,086	**—**	—	**—**	4,086

(b) Geographical segments

The following tables present revenue, certain asset and expenditure information for the Group's geographical segments.

	Hong Kong SAR		Elsewhere in the PRC		Australia		Other countries		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**480,962**	540,342	**93,958**	159,230	**28,406**	23,814	**544**	945	**—**	—	**603,870**	724,331
Other segment information:												
Segment assets	**244,944**	243,095	**334,500**	399,052	**92,749**	84,582	**122,827**	113,133	**(90,970)**	(91,677)	**704,050**	748,185
Expenditure information:												
Capital expenditure	**495**	957	**1,044**	553	**681**	14,498	**—**	99	**—**	—	**2,220**	16,107

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of services rendered, hotel income, agency fee income, proceeds from the sale of properties (in the case of pre-sale of properties, proceeds from pre-sale are adjusted to reflect the stage of construction) and income from financial services and securities broking, after eliminating intra-group transactions.

An analysis of the Group's turnover, other revenue and gains, is as follows:

	Note	2002 HK$'000	2001 HK$'000
Turnover			
Travel and travel-related services		**489,964**	548,081
Property development and agency services		**84,210**	149,585
Hotel investment and management		**28,598**	24,578
Financial services		**914**	1,245
Others		**184**	842
		603,870	724,331
Other revenue			
Interest income		**3,012**	4,066
Income arising from deposits on properties forfeited by purchasers		**473**	896
Visa income		**1,372**	1,430
Commission income		**3,997**	3,360
Refund of employer's provident fund contributions		**—**	3,854
Dividend from unlisted long term investments		**1,235**	353
Investment management fee income		**3,548**	—
Unclaimed dividend and money		**2,166**	—
Recovery of a long term investment previously written off		**1,038**	—
Others		**3,506**	3,896
		20,347	17,855
Gains			
Gain on disposal of a subsidiary	*35(b)*	**295**	—
Gain on disposal of land and buildings		**—**	465
Negative goodwill recognised as income for the year		**444**	—
		739	465
		21,086	18,320

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Cost of inventories sold	**6,564**	5,744
Cost of services provided	**443,109**	488,457
Cost of properties sold	**30,522**	77,854
Depreciation	**6,663**	8,841
Minimum lease payments under operating leases in respect of land and buildings	**10,965**	11,461
Auditors' remuneration	**913**	898
Staff costs (including directors' remuneration, note 8):		
Wages and salaries	**41,239**	43,812
Pension contributions	**1,981**	1,959
Less: forfeited contributions	**(249)**	(473)
Net pension contributions	**1,732**	1,486
Total staff costs	**42,971**	45,298
Revaluation deficit of investment properties	**—**	4,086
Provision for impairment of goodwill	**—**	16,996
Provision for impairment of land and buildings	**—**	102,112
Provision for impairment of properties held for sale*	**—**	1,000
Provision for impairment of long term investments*	**1,091**	339
Loss on disposal of other fixed assets	**8**	50
Unrealised loss/(gain) on short term investments in securities	**(407)**	103
Goodwill amortisation*	**145**	781
Foreign exchange gains/(losses), net	**289**	(2,699)
Gross and net rental income	**(316)**	(1,020)

* *The goodwill amortisation, provisions for impairment of properties held for sale and of long term investments are included in "Administrative expenses" on the face of the consolidated profit and loss account.*

At 31st December, 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**6,849**	7,641
Interest on finance leases	**21**	55
Total interest	**6,870**	7,696

8. DIRECTORS' REMUNERATION

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees:		
Executive Director	**5**	5
Non-Executive Directors	**35**	35
Other emoluments:		
Executive Director:		
Basic salaries, housing, other allowances and benefits in kind	**1,200**	1,200
Pension contributions	**45**	30
Non-Executive Directors:		
Other allowances	**120**	120
	1,405	1,390

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

	Group	
	2002	2001
	Number of Directors	Number of Directors
Nil — HK$1,000,000	**6**	5
HK$1,000,001 — HK$1,500,000	**1**	1
	7	6

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2001: one) Director, details of whose remuneration are set out in note 8 to the financial statements above. The remuneration of each of the remaining four (2001: four) non-director, highest paid employees fell within the band of Nil — HK$1,000,000 and is analysed below:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	**2,305**	2,456
Pension contributions	**74**	89
	2,379	2,545

During the year, no bonuses were paid or payable by the Group to the four non-director, highest paid employees (2001: Nil).

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2001: Nil).

Taxes on profits assessable elsewhere have been calculated based on existing legislation, interpretations and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the year arose as follows:

	2002	2001
	HK$'000	*HK$'000*
Group:		
Overseas	**3,774**	4,911
Overprovision in prior years	**(180)**	(9)
	3,594	4,902
Share of tax attributable to/(tax credit of) associates	**4,263**	(1,051)
	7,857	3,851

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

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$7,565,000 (2001: HK$113,560,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/loss per share is based on the net profit attributable to shareholders for the year of HK$2,093,000 (2001: net loss of HK$125,234,000) and on the 2,414,547,555 shares (2001: weighted average of 1,489,437,449 shares) in issue during the year.

A diluted earnings/loss per share for the years ended 31st December, 2002 and 2001 has not been shown as the warrants outstanding during these years had an anti-dilutive effect on the basic earnings/loss per share for these years.

13. FIXED ASSETS

Group

	Land and buildings *HK$'000*	**Office furniture, fixtures and equipment** *HK$'000*	**Hotel plant and equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Cost:					
At beginning of year	**270,108**	**35,115**	**9,612**	**3,263**	**318,098**
Additions	**18**	**1,044**	**538**	**620**	**2,220**
Disposals	**—**	**(579)**	**(9)**	**—**	**(588)**
Transfer from investment properties *(note 14)*	**10,505**	**—**	**—**	**—**	**10,505**
Transfer to investment properties *(note 14)*	**(13,819)**	**—**	**—**	**—**	**(13,819)**
Exchange realignment	**4,286**	**491**	**981**	**14**	**5,772**
At 31st December, 2002	**271,098**	**36,071**	**11,122**	**3,897**	**322,188**
Accumulated depreciation and impairment:					
At beginning of year	**126,954**	**28,753**	**3,541**	**3,121**	**162,369**
Provided during the year	**2,604**	**2,920**	**1,035**	**104**	**6,663**
Disposals	**—**	**(534)**	**(1)**	**—**	**(535)**
Transfer to investment properties *(note 14)*	**(6,745)**	**—**	**—**	**—**	**(6,745)**
Exchange realignment	**439**	**236**	**396**	**4**	**1,075**
At 31st December, 2002	**123,252**	**31,375**	**4,971**	**3,229**	**162,827**
Net book value:					
At 31st December, 2002	**147,846**	**4,696**	**6,151**	**668**	**159,361**
At 31st December, 2001	143,154	6,362	6,071	142	155,729

The land and buildings, at cost, included above, are held on the following terms:

	Note	**2002** *HK$'000*	2001 *HK$'000*
Freehold, overseas		**50,079**	45,647
Long term leases, Hong Kong SAR		**190,998**	194,312
Long term leases, mainland China	*(i)*	**30,021**	30,149
		271,098	270,108

Note:

(i) The Group's land and building in the mainland China are held under the long term leases. Further particulars of the Group's land use rights for these land and building are included in note 22 of the financial statements.

The net book value of assets held under finance leases at 31st December, 2002, included in the total amount of motor vehicles and office equipment, amounted to HK$93,000 (2001: HK$375,000).

Certain fixed assets with an aggregate net book value of HK$132,490,000 (2001: HK$126,954,000) have been pledged to secure banking facilities granted to the Group *(note 28)*.

Company

	Office furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:			
At beginning of year	**6,626**	**2,067**	**8,693**
Additions	**139**	**—**	**139**
At 31st December, 2002	**6,765**	**2,067**	**8,832**
Accumulated depreciation:			
At beginning of year	**5,270**	**2,067**	**7,337**
Provided during the year	**1,172**	**—**	**1,172**
At 31st December, 2002	**6,442**	**2,067**	**8,509**
Net book value:			
At 31st December, 2002	**323**	**—**	**323**
At 31st December, 2001	1,356	—	1,356

None of the Company's fixed assets were held under finance leases at 31st December, 2002 (2001: assets with a net book value of HK$267,000 included in office equipment).

14. INVESTMENT PROPERTIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
At beginning of year	**10,505**	14,591
Transfer to fixed assets *(note 13)*	**(10,505)**	—
Transfer from fixed assets *(note 13)*	**7,074**	—
Revaluation deficit charged to the profit and loss account	**—**	(4,086)
At end of year	**7,074**	10,505

The investment properties are situated in Hong Kong SAR and are held under long term leases. At 31st December, 2002, the investment properties were revalued on an open market existing use basis by RHL Appraisal Limited, an independent property valuer, at HK$7,074,000. The investment properties are leased to Laura Ashley Limited, a related company of the Group, further details of which are included in notes 36 and 39.

The investment properties have been pledged to a bank to secure banking facilities granted to the Group *(note 28)*.

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

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2002	2001
	HK$'000	*HK$'000*
At beginning of year	**32,910**	32,163
Additions	**—**	747
	32,910	32,910
Provision for impairment	**(29,104)**	(29,104)
At end of year	**3,806**	3,806

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Share of net assets	**23,408**	32,040	**—**	—
Due from jointly-controlled entities	**—**	—	**—**	1,473
Due to jointly-controlled entities	**(14,183)**	(12,700)	**—**	—
	9,225	19,340	**—**	1,473
Provision for impairment	**—**	(7,316)	**—**	—
	9,225	12,024	**—**	1,473

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest %	Voting power %	Profit sharing %	Principal activities
Suzhou Huaxing Real Estate Development Company, Limited	Corporate	People's Republic of China	50	50	50	Property development
Beijing Morning Star – New Ark International Travel Service Company, Limited	Corporate	People's Republic of China	49	49	49	Provision of travel services

The jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**—**	—	**118,757**	118,757
Share of net assets	**108,148**	91,547	**—**	—
Negative goodwill on acquisition	**(406)**	—	**—**	—
Due from associates	**1,201**	1,181	**1,112**	1,096
Due to associates	**(3,192)**	(599)	**—**	—
	105,751	92,129	**119,869**	119,853
Provision for impairment	**—**	—	**(24,186)**	(24,186)
	105,751	92,129	**95,683**	95,667

Goodwill amounting to HK$781,000 arising on the acquisition of an associate in the prior year was amortised in full to the prior year's profit and loss account.

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

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group 2002	2001	Principal activities
Plaza on Hyde Park Limited*	Corporate	United Kingdom	**40**	40	Hotel investment
Way Bright Investment Limited	Corporate	Hong Kong SAR	**50**	50	Provision of property agency services
Zhaodaola Limited*	Corporate	Bermuda/ People's Republic of China	**24**	24	Operating Internet portals
Pearl's Tours and Travel Service Company Limited*	Corporate	Thailand	**49**	—	Provision of travel services

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of all associates would, in the opinion of the Directors, result in particulars of excessive length.

Extracts of the financial statements of Plaza on Hyde Park Limited for the year ended 31st December, 2002, are as follows:

	2002	2001
	HK$'000	*HK$'000*
Non-current assets	**628,347**	570,561
Current assets	**12,458**	12,462
Current liabilities	**87,910**	69,211
Non-current liabilities	**199,679**	205,173
Income	**88,163**	86,958
Net profit for the year	**11,867**	13,356

18. INVESTMENTS

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Long term investments:				
Listed equity investments, at cost:				
Hong Kong SAR	**1,255**	1,255	**—**	—
Overseas	**1,038**	—	**—**	—
	2,293	1,255	**—**	—
Provision for impairment	**(479)**	(339)	**—**	—
	1,814	916	**—**	—
Unlisted equity investments, at cost	**7,671**	7,671	**—**	—
Unlisted investment in convertible cumulative preference stock, at cost	**13,291**	12,056	**13,291**	12,056
Provision for impairment	**(951)**	—	**—**	
	20,011	19,727	**13,291**	12,056
	21,825	20,643	**13,291**	12,056
Market value of listed investments	**1,814**	916	**—**	—
Short term investments:				
Listed equity investments in Hong Kong SAR, at market value	**581**	174	**—**	—

19. OTHER ASSETS

		Group	
		2002	2001
	Note	***HK$'000***	*HK$'000*
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders")	*(i)*	**6,602**	6,876
Deposit with The Stock Exchange of Hong Kong Limited		**305**	300
Admission fees paid to Hong Kong Securities Clearing Company Limited		**150**	150
Contributions to Hong Kong Securities Clearing Company Limited Guarantee Fund		**150**	150
		7,207	7,476

Note:

(i) The loans were used by Land Traders to acquire a piece of land on which the Enrico Hotel, a hotel owned by Mansara Holding Company, Inc. ("Mansara"), a 61%-owned subsidiary of the Group, is built, and an adjoining piece of land. They are secured by promissory notes and mortgages over the two pieces of land in favour of Mansara.

20. PLEDGED BANK BALANCES AND TIME DEPOSITS

The non-current pledged bank balances and time deposits are mainly pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties of Morning Star Villa ("MSV") and Morning Star Plaza ("MSP").

21. BALANCES WITH RELATED COMPANIES

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment, except for a balance due from Morning Star Villa Management Limited which bears interest at 2% above the Hong Kong dollar prime rate per annum. Further details of the transactions with related companies are included in note 39 to the financial statements.

22. PROPERTIES HELD FOR SALE AND PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

The land use rights of the Group's properties held for sale, properties under development held for sale and certain land and buildings as detailed in the note 13 to the financial statements are located in mainland China. These were purchased by the Group's joint venture partner on behalf of the Group and are in progress of being transferred to the Group.

The carrying amount of properties held for sale included in the consolidated balance sheet at net realisable value was HK$1,000,000 (2001: HK$1,000,000).

23. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. An aging analysis of trade receivables as at the balance sheet date is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**13,688**	39,501
1 – 3 months	**1,413**	3,395
Over 3 months	**1,666**	832
	16,767	43,728

24. OTHER RECEIVABLES

		Group		Company	
		2002	2001	**2002**	2001
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest-bearing loan receivable	*(i)*	**8,000**	8,000	**—**	—
Deposits		**16,427**	11,530	**20**	20
Sundry debtors and prepayments		**13,383**	10,989	**381**	375
		37,810	30,519	**401**	395

Note:

(i) The loan receivable is secured by listed securities, bears interest at the Hong Kong dollar prime rate plus 1% per annum and is repayable within one year.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**66,425**	69,345	**85**	71
Time deposits	**56,985**	54,957	**—**	—
	123,410	124,302	**85**	71

26. FINANCE LEASE PAYABLES

The Group leases certain of its office equipment and a motor vehicle. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31st December, 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**31**	321	**25**	305
In the second year	**18**	21	**17**	13
In the third to fifth years, inclusive	**62**	81	**57**	77
Total minimum finance lease payments	**111**	423	**99**	395
Future finance charges	**(12)**	(28)		
Total net finance lease payables	**99**	395		
Portion classified as current liabilities	**(25)**	(305)		
Long term portion	**74**	90		

Company

	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable within one year and total minimum finance lease payments	**—**	293	**—**	284
Future finance charges	**—**	(9)		
Total net finance lease payables and classified as current liabilities	**—**	284		

27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK$26,569,000 (2001: HK$20,392,000). An aging analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**25,428**	19,911
1 – 3 months	**375**	320
Over 3 months	**766**	161
	26,569	20,392

28. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts, secured	**12,220**	27,807	**2,224**	6,306
Bank loans, secured	**168,695**	140,031	**155,000**	126,000
	180,915	167,838	**157,224**	132,306
Bank loans and overdrafts repayable:				
Within one year	**165,915**	140,410	**142,224**	117,306
In the second year	**15,000**	12,428	**15,000**	—
In the third to fifth years, inclusive	**—**	15,000	**—**	15,000
	180,915	167,838	**157,224**	132,306
Portion classified as current liabilities	**(165,915)**	(140,410)	**(142,224)**	(117,306)
Long term portion	**15,000**	27,428	**15,000**	15,000

The bank loans and overdrafts are secured by certain fixed assets and the investment properties of the Group *(notes 13 and 14)*.

29. NON-INTEREST-BEARING OTHER BORROWINGS

The non-interest-bearing other borrowings represent short term loans of HK$16,710,000 (2001: HK$16,934,000) granted by the minority shareholders of subsidiaries which are unsecured, interest-free and have no fixed terms of repayment.

30. MINORITY INTERESTS

Included in the minority interests is a loan payable balance to a minority shareholder of HK$6,966,000 (2001: HK$28,344,000) which is unsecured, interest-free and has no fixed terms of repayment.

31. DEFERRED TAX

The principal components of deferred tax assets / (liabilities) not recognised / (provided for) are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(942)**	212
Tax losses	**26,873**	26,883
Deferred tax assets	**25,931**	27,095

32. SHARE CAPITAL

	Company	
	2002	2001
	HK$'000	*HK$'000*
Shares		
Authorised:		
5,000,000,000 ordinary shares of HK$0.20 each	**1,000,000**	1,000,000
Issued and fully paid:		
2,414,547,555 ordinary shares of HK$0.20 each	**482,910**	482,910

For the year ended 31st December, 2001, there were the following movements in share capital:

(a) On 30th October, 2001, 413,922,438 new shares (the "Rights Shares") of HK$0.20 each were issued by way of a rights issue on the basis of three Rights Shares for every ten existing shares held at an issue price of HK$0.20 per share for a total cash consideration, before share issue expenses, of approximately HK$82,785,000. The proceeds of the issue of the Rights Shares were used to finance the acquisition of a 40% interest in Plaza on Hyde Park Limited, an associate of the Group.

(b) On 30th October, 2001, the Company also completed an issue of bonus shares (the "Bonus Shares") on the basis of three Bonus Shares for every two Rights Shares subscribed. A total of 620,883,657 Bonus Shares of HK$0.20 each were issued, credited as fully paid by way of the capitalisation of the Company's share premium account.

A summary of the movements of the Company's ordinary share capital is as following:

	Number of shares	Share capital *HK$'000*	Share premium *HK$'000*	Total *HK$'000*
At 1st January, 2001	1,379,741,460	275,948	132,375	408,323
Rights issue	413,922,438	82,785	—	82,785
Bonus issue	620,883,657	124,177	(124,177)	—
Transfer to subscription rights reserve *(Note)*	—	—	(2,905)	(2,905)
	2,414,547,555	482,910	5,293	488,203
Share issue expenses	—	—	(1,870)	(1,870)
At 31st December, 2001, 1st January, 2002 and 31st December, 2002	**2,414,547,555**	**482,910**	**3,423**	**486,333**

Note: Particulars of the transfer to the subscription rights reserve are set out under "Warrants" below.

Warrants

As a result of the rights issue completed in 2001, the exercise price of the Company's warrants, which were issued on 20th June, 2000 was adjusted from HK$0.20 per share to HK$0.19 per share with effect from 6th October, 2001. As at the balance sheet date, the Company had an outstanding amount of HK$55,189,658 of warrants entitling the registered holders to subscribe in cash at any time on or before 19th June, 2005 for fully paid ordinary shares of HK$0.20 each of the Company at an exercise price of HK$0.19 per share. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 290,471,886 additional ordinary shares and proceeds, before share issue expenses, of HK$55,189,658. The adjusted exercise price of HK$0.19 is below the nominal value of the Company's ordinary shares of HK$0.20 each. Pursuant to an ordinary resolution passed by the shareholders of the Company at the extraordinary general meeting held on 5th October, 2001, a new reserve, namely the subscription rights reserve, was set up and an amount of HK$2,905,000 was transferred from the share premium account to the subscription rights reserve. Upon any exercise of the Company's warrants at the adjusted exercise price, the difference between the adjusted exercise price of the Company's warrants and the nominal value of the Company's new ordinary shares issuable upon the exercise of such warrants will be treated as paid out of the subscription rights reserve. No warrants were exercised during the year.

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

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 1st January, 2001, to remain eliminated against consolidated reserves.

The amounts of the goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries/associates, are as follows:

	Goodwill included in goodwill reserve *HK$'000*	**Negative goodwill included in goodwill reserve** *HK$'000*
Cost at beginning and end of the year	**17,238**	**(164)**
Accumulated impairment at beginning and end of the year	**(16,996)**	**—**
Net amount:		
At 31st December, 2002	**242**	**(164)**

(b) Company

	Notes	**Share premium account** *HK$'000*	**Subscription rights reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1st January, 2001		132,375	—	(122,290)	10,085
Share issue expenses	*32*	(1,870)	—	—	(1,870)
Bonus issue	*32*	(124,177)	—	—	(124,177)
Net loss for the year		—	—	(113,560)	(113,560)
Transfer	*32*	(2,905)	2,905	—	—
At 31st December, 2001 and at beginning of year		**3,423**	**2,905**	**(235,850)**	**(229,522)**
Net loss for the year		**—**	**—**	**(7,565)**	**(7,565)**
At 31st December, 2002		**3,423**	**2,905**	**(243,415)**	**(237,087)**

34. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**35,254**	26,569
Loans to subsidiaries	**260,000**	260,000
	295,254	286,569
Provisions for impairment	**(153,902)**	(153,902)
	141,352	132,667

The loans to subsidiaries are unsecured, bear interest at the Hong Kong dollar prime rate plus 2% per annum and are not repayable within one year. Except for balances due from certain subsidiaries amounting to HK$27,098,022 (2001: HK$9,720,000) and a balance due to a subsidiary amounting to HK$135,840,804 (2001: HK$146,833,000), included in the Company's current assets and liabilities, which bear interest at the Hong Kong dollar prime rate plus 2% per annum, all balances with subsidiaries, included in the Company's current assets and liabilities, are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries at the balance sheet date were as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Class of shares held	Principal activities
Barilla Pty. Limited	Australia	A$2	—	69.5	Ordinary	Property holding
Bright Profit Investments Limited	British Virgin Islands/ People's Republic of China	US$50,000	—	55	Ordinary	Property development
Consing Investment Limited	Hong Kong SAR	HK$2	—	100	Ordinary	Investment holding
Genuine Gains Limited	British Virgin Islands/ Hong Kong SAR	US$1	—	100	Ordinary	Property investment

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Class of shares held	Principal activities
Jubilation Properties Limited	British Virgin Islands/ People's Republic of China	US$50,000	—	55	Ordinary	Property development
Kingpin Assets Limited	British Virgin Islands	US$2	—	100	Ordinary	Investment holding
Mansara Holding Company, Inc.*	Philippines	Peso30,000,000	—	61	Ordinary	Hotel investment
Mansara International Limited*	British Virgin Islands/ Philippines	US$100	—	61	Ordinary	Investment holding
Morning Star Finance Limited	Cayman Islands	HK$200	100	—	Ordinary	Investment holding
Morning Star Financial Services Limited	Hong Kong SAR	HK$42,924,000	78.4	—	Ordinary	Investment holding
Morning Star Foreign Exchange Limited	Hong Kong SAR	HK$300,000	—	100	Ordinary	Money lending
Morning Star Holdings (Australia) Limited	Australia	A$13,402,501	—	69.5	Ordinary	Investment holding
Morning Star Holdings (Thailand) Limited	Thailand	Baht25,000	100	—	Ordinary	Investment holding
Morning Star Hotel International Limited	Cayman Islands	HK$200	100	—	Ordinary	Investment holding
Morning Star Hotel Investments Limited	Cayman Islands	HK$200	100	—	Ordinary	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Class of shares held	Principal activities
Morning Star Investment Management Limited	Hong Kong SAR	HK$5,000,000	—	78.4	Ordinary	Provision of investment advisory services
Morning Star Properties Limited	British Virgin Islands	US$2	100	—	Ordinary	Investment holding
Morning Star Property Consultants Limited	Hong Kong SAR	HK$2	—	100	Ordinary	Provision of property consultancy services
Morning Star Travel International Limited	Cayman Islands	HK$200	100	—	Ordinary	Investment holding
Morning Star Securities Limited	Hong Kong SAR	HK$150,000,000	—	78.4	Ordinary	Securities broking
Morning Star Travel Service Limited	Hong Kong SAR	HK$90,000,000 HK$10,000,000	— —	100 100	Ordinary Non-voting deferred	Provision of travel services
Morning Star Travel Service Ltd. *	British Columbia, Canada	C$81,000	—	100	Ordinary	Provision of travel services
Morning Star Travel Service (Macau) Limited *	Macau	MOP1,000,000	—	100	Ordinary	Provision of travel services
Morning Star Traveller Plus Limited	Hong Kong SAR	HK$2	—	100	Ordinary	Provision of travel-related services

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Class of shares held	Principal activities
Remarkable Investments Limited	British Virgin Islands/ Hong Kong SAR	US$1	—	100	Ordinary	Property holding
Star Building (Holdings) Limited	Thailand	Baht1,000,000	—	50.8	Ordinary	Property holding
Star Travel Service Limited	Hong Kong SAR	HK$1,050,000	—	100	Ordinary	Provision of travel services
Stowford Pty. Ltd.	Australia	A$20	—	69.5	Ordinary	Hoteliers and caterers
Vista International Hotels Limited	Hong Kong SAR	HK$10 HK$300,000	— —	100 100	Ordinary Non-voting deferred	Hotel management
Vista Hotel Management Sdn Bhd	Malaysia	MYR2 MYR500,000	— —	100 100	Ordinary Non-cumulative irredeemable 10% preference	Hotel management
Vista International Hotels Pty. Limited	Australia	A$2	—	100	Ordinary	Hotel management

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

The above table lists the subsidiaries of the Company as at 31st December, 2002 which, in the opinion of the Directors, principally affected the results for the year or 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.

35. 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 cash flow statement. The 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 and interest paid are now included in cash flows from operating activities and interest received is now included in cash flows from investing activities. The presentation of the 2001 comparative cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year. Previously the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. This change in accounting policy has had no material effect on the amounts previously reported in the prior year's cash flow statement.

(b) Disposal of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets disposed of:		
Cash and bank balances	**1**	—
Accounts payable and other accrued liabilities	**(21)**	—
Shareholders' loan	**(225)**	—
Minority interests	**(50)**	—
	(295)	—
Gain on disposal of a subsidiary *(note 5)*	**295**	—
	—	—

No consideration was received by the Group in respect of the disposal of the subsidiary.

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	2002 HK$'000	2001 HK$'000
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(1)**	—

The results of the subsidiary disposed of for the year ended 31st December, 2002 had no significant impact on the Group's consolidated turnover or profit/loss after tax and before minority interests for the years ended 31st December, 2002 and 2001.

(c) Major non-cash transactions

(i) Set off of a debtor balance

During the year, a debtor balance amounting to HK$21,356,000 was set off with the loan from a minority interest.

(ii) Dividend from unlisted long term investments

During the year, a dividend receivable from one of the Group's unlisted long term investments, amounting to HK$1,235,000 (2001:HK$353,000), was satisfied by the issue of 10% convertible cumulative preferred stocks of the investee company.

(iii) Acquisition of an associate

During the year, the Group acquired 24,500 ordinary shares of Pearl's Tours and Travel Service Company Limited at a consideration of HK$1,522,000 which was satisfied by a deposit paid in prior years.

(iv) Bonus issue

Last year, the Company issued 620,883,657 bonus shares of HK$0.20 each by capitalising an amount of approximately HK$124,177,000 from the share premium account.

(d) Restricted cash and cash equivalent balances

Cash and cash equivalents at end of the year include deposits with banks of HK$26,968,000 (2001: HK$21,138,000) held by subsidiaries which are not freely remissible to the Company because of currency exchange restrictions.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for a term of two years.

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

	2002	2001
	HK$'000	*HK$'000*
Within one year	**319**	167
In the second to fifth years, inclusive	**107**	—
	426	167

(b) As lessee

The Group leases certain of its properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

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

	2002	2001
	HK$'000	*HK$'000*
Within one year	**7,707**	7,254
In the second to fifth years, inclusive	**3,675**	2,059
	11,382	9,313

37. CAPITAL COMMITMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted for:		
Land and construction costs	**13,235**	15,426
Authorised, but not contracted for:		
Land and construction costs	**173,280**	202,827
	186,515	218,253

The above amount of HK$186,515,000 (2001: HK$218,253,000) relates to the development of the Group's property projects in Zhongshan, the People's Republic of China, into a residential and commercial complex.

In addition to the above, the Group's share of capital commitments of a jointly-controlled entity is as follows:

	2002	2001
	HK$'000	*HK$'000*
Contracted, but not provided for	**—**	1,189

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date.

38. CONTINGENT LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank guarantees	**348,974**	384,755	**95,833**	116,337
Guarantee of banking facilities granted to a subsidiary	**—**	—	**—**	10,000
	348,974	384,755	**95,833**	126,337

Included in bank guarantees is an amount of HK$341,230,000 (2001: HK$376,712,000) (Company — 2002: HK$88,088,000; 2001: HK$108,293,150) in respect of buy-back guarantees in favour of banks given to the purchasers of the MSV and MSP properties on certain mortgage loans outstanding at the balance sheet date.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

		2002	2001
	Notes	***HK$'000***	*HK$'000*
Rental income from related companies:			
MUI Enterprises Limited ("MUIEL")	*(i)*	**—**	841
Laura Ashley Limited ("LAL")	*(i)*	**184**	—
Architectural consultancy fees paid to:			
Shen & Partners Limited ("Shen & P")	*(ii)*	**707**	217
SRT Design (China) Limited ("SRT (China)")	*(ii)*	**670**	322
Interest income from Morning Star Villa Management Limited ("MVM")	*(iii)*	**154**	270
Property management fees paid to MVM	*(iv)*	**349**	405
Subscription of 10% convertible cumulative preferred stock of Porchlight Entertainment, Inc. ("Porchlight")	*(v)*	**—**	11,703
Acquisition of shares of Plaza on Hyde Park Limited ("POHP")	*(vi)*	**—**	95,352
Underwriting commission paid to Bonham Industries Limited ("Bonham")	*(vii)*	**—**	191
Acquisition of additional shares of Morning Star Financial Services Limited ("MSFS")	*(viii)*	**8,684**	—

(i) *MUIEL is a subsidiary of Malayan United Industries Berhad ("MUI"). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of MUI. Pursuant to a tenancy agreement entered into between the Group and MUIEL in 2000, the Group leased an office area to MUIEL for a period of two years at a total annual rental of HK$668,000, commencing from 1st April, 2000. The rental charged to MUIEL was determined by reference to open market rentals. During the year, the Group agreed to terminate the tenancy agreement with MUIEL with effect from 1st January, 2002 and this office area has been occupied by the Group as office space since that date.*

LAL is a wholly-owned subsidiary of Laura Ashley Holdings plc ("LAH"). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of LAH. Pursuant to a tenancy agreement entered into between the Group and LAL in 2002, the Group leased an office area to LAL for a period of two years at a total annual rental of HK$319,000, commencing from 1st May, 2002. The rental charged to LAL was determined by reference to open market rentals.

(ii) *Mr. Edward SHEN, an Independent Non-Executive Director of the Company, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of SRT (China). The fees were charged by reference to the then prevailing market rates.*

On 8th March, 2002, Jubilation Properties Limited ("JPL"), an indirect subsidiary of the Company, entered into a contract with Shen & P in respect of the appointment of Shen & P to provide consultancy services for MSV for a total consideration of HK$2,240,000. The consideration was determined by reference to the prevailing market rates. Further details of this transaction are set out in the Company's press announcement dated 8th March, 2002.

(iii) *MVM is engaged in the property management of MSV. Certain Directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2% above the Hong Kong dollar prime rate per annum is charged on balances with MVM.*

(iv) *Property management fees paid to MVM represent the property management fees of the vacant units of MSV owned by JPL, which is engaged in the development of MSV. The property management fees on unsold units are determined based on half the rate per square foot charged to the other owners of MSV.*

(v) *In 2001, the Company subscribed for 1,500,000 10% convertible cumulative preferred stock of Porchlight at a total consideration of HK$11,703,000. MUI, of which Tan Sri Dr. KHOO Kay Peng is the chairman and chief executive, indirectly owns a 50% equity interest in Porchlight. The subscription consideration is based on the price of US$1 per share.*

(vi) *On 17th August, 2001, the Company entered into a sale and purchase agreement (the "Agreement") with London Vista Hotel Limited ("London Vista") to acquire a 40% equity interest in POHP at a consideration of HK$95,352,000. As at the date of the Agreement, MUI, of which Tan Sri Dr. KHOO Kay Peng is the chairman and chief executive, indirectly owned a 49% equity interest in London Vista. The purchase consideration was determined by reference to the unaudited net asset value of POHP as at 30th September, 2001, adjusted for an agreed valuation of GBP45,000,000 for the entire fixed assets of POHP. Pursuant to the Agreement, the Company was granted an option, which is exercisable within two years commencing from the date of the Agreement, to purchase an additional 11% equity interest in POHP at an exercise price of HK$25,806,000 which is subject to adjustment as provided in the Agreement.*

Further details of this transaction are set out in the Company's circular dated 10th September, 2001 and note 17 to the financial statements above.

(vii) *In 2001, the Company entered into an underwriting agreement with Bonham and Firstway International Investment Limited ("Firstway"), both of which are substantial shareholders of the Company, and Morning Star Securities Limited ("MSSL"), an indirect subsidiary of the Company. Pursuant to the underwriting agreement, Bonham and MSSL undertook to underwrite any rights shares not subscribed by the Company's shareholders. The Company agreed to pay to Bonham and MSSL an underwriting commission at a rate of 1% of the value of rights shares subscribed by or whose subscription was procured by Bonham and MSSL. A total of 95,285,871 rights shares were taken up by Bonham in October 2001.*

Further details of this underwriting arrangement are set out in the Company's circular dated 10th September, 2001, the Company's prospectus dated 5th October, 2001 and the Company's press announcement dated 26th October, 2001.

(viii) *In April 2002, the Company acquired a further 8,192,500 ordinary shares of MSFS, a previously 59.26%-owned subsidiary of the Company, representing a 19.09% interest, from Firstway, a substantial shareholder of the Company, at a consideration of HK$8,684,050. The purchase consideration was determined by reference to the adjusted unaudited consolidated net asset value of MSFS as at 31st December, 2001. Further details of this transaction are set out in the Company's press announcement dated 5th March, 2002.*

Details of the Group's balances with jointly-controlled entities, associates and related companies at the balance sheet date are set out in notes 16, 17 and 21 to the financial statements, respectively.

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26th March, 2003.