



**星晨集團有限公司**

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**Morning Star Resources Limited**

*(Incorporated in the Cayman Islands with limited liability)*

INTERIM REPORT 2003

## UNAUDITED INTERIM RESULTS

The Board of Directors of Morning Star Resources Limited (formerly known as MUI Hong Kong Ltd.) (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>For the six months ended 30th June,</b>	
		<b>2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>2002</b> <b>(Unaudited)</b> <b>(Restated)</b> <b>HK\$'000</b>
TURNOVER	2	<b>184,467</b>	337,755
Cost of sales		<b>(146,880)</b>	(267,148)
Gross profit		<b>37,587</b>	70,607
Other revenue and gains	3	<b>5,434</b>	8,437
Selling and promotional expenses		<b>(10,391)</b>	(11,525)
Administrative expenses		<b>(42,309)</b>	(49,009)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2, 4	<b>(9,679)</b>	18,510
Finance costs	5	<b>(3,576)</b>	(3,327)
Share of profits less losses of associates		<b>552</b>	2,638
Share of losses of jointly- controlled entities		<b>(122)</b>	(204)
PROFIT/(LOSS) BEFORE TAX		<b>(12,825)</b>	17,617
Tax	6	<b>619</b>	(3,799)
PROFIT/(LOSS) AFTER TAX		<b>(12,206)</b>	13,818
Minority interests		<b>862</b>	(6,398)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>(11,344)</b>	7,420
EARNINGS/(LOSS) PER SHARE			
— Basic	7	<b>(0.47 cent)</b>	0.31 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30th June, 2003 (Unaudited)  <i>HK\$'000</i>	31st December, 2002 (Audited) (Restated) <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		165,563	159,361
Investment properties		7,074	7,074
Properties under development		3,806	3,806
Interests in jointly-controlled entities		9,426	9,225
Interests in associates		109,024	105,751
Long term investments		22,598	21,825
Other assets		7,153	7,207
Pledged bank balances and time deposits		10,220	8,733
Deferred tax assets		8,348	6,660
		<b>343,212</b>	<b>329,642</b>
<b>CURRENT ASSETS</b>			
Due from related companies		3,132	4,474
Properties held for sale		96,517	101,229
Properties under development held for sale		107,886	88,495
Short term investments		392	581
Inventories		1,402	1,418
Trade receivables	9	15,718	16,767
Other receivables		28,540	37,810
Client trust bank balances		7,413	6,884
Cash and cash equivalents		91,117	123,410
		<b>352,117</b>	<b>381,068</b>
<b>CURRENT LIABILITIES</b>			
Due to related companies		157	546
Tax payable		7,579	13,923
Finance lease payables		31	25
Trade payables, other payables and accruals	10	93,176	103,015
Interest-bearing bank borrowings		168,079	165,915
Non-interest-bearing other borrowings		16,710	16,710
		<b>285,732</b>	<b>300,134</b>
<b>NET CURRENT ASSETS</b>		<b>66,385</b>	<b>80,934</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>409,597</b>	<b>410,576</b>
<b>NON-CURRENT LIABILITIES</b>			
Finance lease payables		71	74
Interest-bearing bank borrowings		15,061	15,000
		<b>15,132</b>	<b>15,074</b>
<b>MINORITY INTERESTS</b>		<b>119,641</b>	<b>119,122</b>
		<b>274,824</b>	<b>276,380</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital		482,910	482,910
Reserves		(208,086)	(206,530)
		<b>274,824</b>	<b>276,380</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th June,	
	2003	2002
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(33,400)	11,781
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(2,962)	(9,902)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(8,425)	11,662
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(44,787)	13,541
Cash and cash equivalents at beginning of period	111,190	96,495
Effect of foreign exchange adjustments, net	6,635	3,252
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>73,038</u>	<u>113,288</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	91,117	127,284
Bank overdrafts	(18,079)	(13,996)
	<u>73,038</u>	<u>113,288</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June 2003*

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Subscription rights reserve (Unaudited) <i>HK\$'000</i>	Exchange realignment reserve (Unaudited) <i>HK\$'000</i>	Goodwill reserve (Unaudited) <i>HK\$'000</i>	Accumulated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1st January, 2003							
– as previously reported	482,910	3,423	2,905	(24,502)	(78)	(194,938)	269,720
– adjustment on adoption of SSAP12 (Revised)	—	—	—	—	—	6,660	6,660
– as restated	482,910	3,423	2,905	(24,502)	(78)	(188,278)	276,380
Exchange realignments and net gains not recognised in profit and loss account	—	—	—	9,788	—	—	9,788
Net loss for the period	—	—	—	—	—	(11,344)	(11,344)
At 30th June, 2003	<b>482,910</b>	<b>3,423</b>	<b>2,905</b>	<b>(14,714)</b>	<b>(78)</b>	<b>(199,622)</b>	<b>274,824</b>
At 1st January, 2002							
– as previously reported	482,910	3,423	2,905	(38,457)	(78)	(197,031)	253,672
– adjustment on adoption of SSAP12 (Revised)	—	—	—	—	—	8,669	8,669
– as restated	482,910	3,423	2,905	(38,457)	(78)	(188,362)	262,341
Exchange realignments and net gains not recognised in profit and loss account	—	—	—	9,654	—	—	9,654
Net profit for the period (restated)	—	—	—	—	—	7,420	7,420
At 30th June, 2002	<b>482,910</b>	<b>3,423</b>	<b>2,905</b>	<b>(28,803)</b>	<b>(78)</b>	<b>(180,942)</b>	<b>279,415</b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2003

## 1. ACCOUNTING POLICIES

*These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2002, except that the Group has adopted SSAP 12 (Revised) "Income Taxes", issued by the HKSA, which is effective for accounting period commencing on or after 1st January, 2003.*

*SSAP 12 (Revised) prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant timing differences to the extent that the liability would crystallise in the foreseeable future, and that deferred tax asset was not recognised until its realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), this new accounting policy has been applied retrospectively. The principal impacts arising from the adoption of this revised SSAP are a reduction of the accumulated losses at 1st January, 2002 and 1st January, 2003 by HK\$8,669,000 and HK\$6,660,000 respectively and an increase of HK\$1,203,000 in the tax benefit for the current year and an increase of tax charge of HK\$1,202,000 for last year.*

## 2. SEGMENT INFORMATION

An analysis of the Group's segment revenue and segment results by business segments and geographical segments are summarised as follows:

### (i) Business segments

#### (a) Revenue

<i>For the six months ended 30th June, 2003</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Travel and travel-related services</i>	154,614	—	2,510	157,124
<i>Property development and agency services</i>	13,832	—	1,127	14,959
<i>Hotel investment and management</i>	14,797	—	—	14,797
<i>Financial services</i>	1,064	—	—	1,064
<i>Corporate and other businesses</i>	160	1,526	47	1,733
	<u>184,467</u>	<u>1,526</u>	<u>3,684</u>	<u>189,677</u>
<i>Eliminations</i>	—	(1,526)	—	(1,526)
	<u>184,467</u>	<u>—</u>	<u>3,684</u>	<u>188,151</u>

<i>For the six months ended 30th June, 2002</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Travel and travel-related services</i>	260,055	—	3,291	263,346
<i>Property development and agency services</i>	62,684	—	1,663	64,347
<i>Hotel investment and management</i>	14,134	—	—	14,134
<i>Financial services</i>	839	—	988	1,827
<i>Corporate and other businesses</i>	43	2,131	644	2,818
	<u>337,755</u>	<u>2,131</u>	<u>6,586</u>	<u>346,472</u>
<i>Eliminations</i>	—	(2,131)	—	(2,131)
	<u>337,755</u>	<u>—</u>	<u>6,586</u>	<u>344,341</u>

(b) Results

*For the six months ended 30th June,*

	2003			2002		
	Segment		Total	Segment		Total
	results	Eliminations		results	Eliminations	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Travel and travel-related services	(7,847)	—	(7,847)	2,587	—	2,587
Property development and agency services	(1,193)	—	(1,193)	16,958	—	16,958
Hotel investment and management	351	—	351	445	—	445
Financial services	(1,052)	—	(1,052)	(751)	—	(751)
Corporate and other businesses	1,718	(448)	1,270	1,680	(564)	1,116
	<u>(8,023)</u>	<u>(448)</u>	<u>(8,471)</u>	<u>20,919</u>	<u>(564)</u>	<u>20,355</u>
Interest income and dividend income			1,750			1,851
Unallocated expenses			<u>(2,958)</u>			<u>(3,696)</u>
Profit/(loss) from operating activities			<u>(9,679)</u>			<u>18,510</u>

(ii) Geographical segments

(a) Revenue

*For the six months ended 30th June, 2003*

	Sales to			
	external	Intersegment	Other	Total
	customers	sales	revenue	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong SAR	152,331	956	2,296	155,583
Elsewhere in the				
PRC	16,790	—	1,151	17,941
Australia	15,075	117	—	15,192
Others	271	—	237	508
	<u>184,467</u>	<u>1,073</u>	<u>3,684</u>	<u>189,224</u>
Eliminations	<u>—</u>	<u>(1,073)</u>	<u>—</u>	<u>(1,073)</u>
	<u>184,467</u>	<u>—</u>	<u>3,684</u>	<u>188,151</u>



For the six months ended 30th June, 2002

	Sales to			
	external	Intersegment	Other	Total
	customers	sales	revenue	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong SAR	256,265	526	4,812	261,603
Elsewhere in the				
PRC	67,465	—	1,706	69,171
Australia	13,943	—	—	13,943
Others	82	408	68	558
	337,755	934	6,586	345,275
Eliminations	—	(934)	—	(934)
	337,755	—	6,586	344,341

(b) Results

For the six months ended 30th June,

	2003			2002		
	Segment		Total	Segment		Total
	results	Eliminations		results	Eliminations	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong SAR	(7,256)	—	(7,256)	3,539	—	3,539
Elsewhere in the						
PRC	(1,432)	—	(1,432)	16,961	—	16,961
Australia	(145)	—	(145)	(342)	—	(342)
Others	362	—	362	197	—	197
	(8,471)	—	(8,471)	20,355	—	20,355

3. OTHER REVENUE AND GAINS

	<i>For the six months ended 30th June,</i>	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Income arising from deposits on properties forfeited by purchasers</i>	48	24
<i>Visa income</i>	482	777
<i>Commission income</i>	1,481	2,057
<i>Negative goodwill recognised as income for the period</i>	102	—
<i>Others</i>	1,571	3,728
	<u>3,684</u>	<u>6,586</u>
<i>Interest income</i>	1,091	1,253
<i>Dividend from unlisted long term investments</i>	659	598
	<u>5,434</u>	<u>8,437</u>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

*Profit/(loss) from operating activities is arrived at after charging:*

	<i>For the six months ended 30th June,</i>	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Depreciation:</i>		
<i>Owned fixed assets</i>	2,899	3,415
<i>Leased fixed assets</i>	13	257
	<u>2,912</u>	<u>3,672</u>
<i>Amortisation of goodwill</i>	—	145

5. FINANCE COSTS

	<i>For the six months ended 30th June,</i>	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Interest on bank loans and overdrafts wholly repayable within five years</i>	3,558	3,319
<i>Interest on finance leases</i>	18	8
	<u>3,576</u>	<u>3,327</u>

## 6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30th June, 2002: Nil).

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

	<i>For the six months ended 30th June,</i>	
	<i>2003 (Unaudited) HK\$'000</i>	<i>2002 (Unaudited) (Restated) HK\$'000</i>
Overseas	584	2,597
Deferred taxation		
– current period	(578)	1,202
– attributable to change in tax rate	(625)	—
	<hr/>	<hr/>
Tax charge for the period	<b>(619)</b>	<b>3,799</b>

## 7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share for the period is based on the loss of HK\$11,344,000 (six months ended 30th June, 2002: restated profit of HK\$7,420,000) and the 2,414,547,555 shares (2002: 2,414,547,555 shares) in issue during the period.

The diluted earnings/(loss) per share for the periods ended 30th June, 2003 and 2002 has not been shown as the warrants outstanding during these periods had an anti-dilutive effect on the basic earnings/(loss) per share for these periods.

## 8. DIVIDENDS

At a meeting of the Board of Directors held on 5th September, 2003, the Directors resolved not to declare an interim dividend in respect of the year ending 31st December, 2003.

## 9. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	<b>30th June, 31st December, 2003 (Unaudited) HK\$'000</b>	<b>2002 (Audited) HK\$'000</b>
Current	<b>14,444</b>	13,688
1-3 months	<b>407</b>	1,413
Over 3 months	<b>867</b>	1,666
	<hr/> <b>15,718</b>	<hr/> 16,767

## 10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$11,341,000 (31st December, 2002: HK\$26,569,000). Details of the aging analysis of trade payables are as follows:

	<b>30th June, 31st December, 2003 (Unaudited) HK\$'000</b>	<b>2002 (Audited) HK\$'000</b>
Current	<b>8,925</b>	25,428
1-3 months	<b>1,744</b>	375
Over 3 months	<b>672</b>	766
	<hr/> <b>11,341</b>	<hr/> 26,569

## 11. RELATED PARTY TRANSACTIONS

		<i>For the six months ended 30th June,</i>	
		<b>2003</b>	2002
<i>Notes</i>		<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Rental income received from:</i>			
<i>Laura Ashley Limited ("LAL")</i>	<i>(i)</i>	<b>160</b>	43
<i>Architectural consultancy fees paid to:</i>			
<i>Shen &amp; Partners Limited</i>			
<i>("Shen &amp; P")</i>	<i>(ii)</i>	<b>824</b>	707
<i>SRT Design (China) Limited</i>			
<i>("SRT (China)")</i>	<i>(ii)</i>	<b>143</b>	209
<i>Interest income from Morning Star Villa Management Limited ("MVM")</i>			
	<i>(iii)</i>	<b>59</b>	94
<i>Management fee paid to MVM</i>	<i>(iv)</i>	<b>192</b>	128
<i>Acquisition of additional interests in Morning Star Financial Services Limited ("MSFS")</i>			
	<i>(v)</i>	<b>—</b>	8,684

### *Notes:*

- (i) *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 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 prevailing market rates.*
- (iii) *MVM is engaged in the property management of Morning Star Villa ("MSV"). Certain Directors of the Company and its subsidiaries are also the directors of MVM. Interest at 2 percent 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 Jubilation Properties Limited, 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 April 2002, the Company acquired 8,192,500 ordinary shares of MSFS from Firstway International Investment Limited, 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.*

## 12. CONTINGENT LIABILITIES

	<b>30th June, 2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31st December, 2002</b> <b>(Audited)</b> <b>HK\$'000</b>
<i>Bank guarantees</i>	<b>321,477</b>	<b>348,974</b>

*Included in bank guarantees is an amount of HK\$313,823,000 (2002: HK\$341,230,000) in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and Morning Star Plaza.*

## 13. CAPITAL COMMITMENTS

	<b>30th June, 2003</b> <b>(Unaudited)</b> <b>HK\$'000</b>	<b>31st December, 2002</b> <b>(Audited)</b> <b>HK\$'000</b>
<i>Contracted for:</i>		
<i>Land and construction costs</i>	<b>18,169</b>	<b>13,235</b>
<i>Authorised, but not contracted for:</i>		
<i>Land and construction costs</i>	<b>150,791</b>	<b>173,280</b>
	<b>168,960</b>	<b>186,515</b>

*Included in the above is the amount relating to the development of the Group's property projects in Zhongshan, the PRC, into a residential and commercial complex.*

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

#### 14. APPROVAL OF THE FINANCIAL STATEMENTS

*The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 5th September, 2003.*

### MANAGEMENT DISCUSSION AND ANALYSIS

#### REVIEW OF FINANCIAL RESULTS

##### *Group Overview*

During the first half-year of 2003, the Group's core business of travel and travel-related services was affected by uncertainties over the US-led conflict in Iraq at the beginning of the year, followed by the outbreak of atypical pneumonia, or SARS, in mid-March. Business volume fell to about one fifth of its normal level in April and May. As a result of the above adverse factors, the Group's consolidated turnover at HK\$184.5 million for the six months ended 30th June, 2003 decreased by 45.4% as compared to HK\$337.8 million for the corresponding period in 2002.

Following the outbreak of SARS, the Group implemented a series of cost reduction measures to minimize the unfavourable impact and to conserve cash resources. Such austerity measures were supported by all staff, many of whom offered to take unpaid leave, after finishing their paid leave.

For the period under review, the Group recorded a loss from operating activities of HK\$9.7 million as compared to a profit of HK\$18.5 million for the corresponding period in 2002. The net loss from ordinary activities attributable to shareholders for the six months ended 30th June, 2003 amounted to HK\$11.3 million, against a restated profit of HK\$7.4 million for the corresponding period in 2002.

##### *Travel and Tourism Division*

The Travel and Tourism Division faced its greatest commercial challenge in the Group's history in April and May before the World Health Organization's travel advisory was lifted on 23rd May, 2003. For the half-year to 30th June, 2003, outbound passenger numbers decreased by about 30% whereas total turnover declined by about 40% compared with the same period last year. Tours to China and long-haul destinations were particularly badly affected.

Total turnover for the Group's travel and travel-related services for the six months ended 30th June, 2003 amounted to HK\$154.6 million, a decrease of 40.5% as compared to HK\$260.1 million for the corresponding period in 2002. The operating results were a loss of HK\$7.8 million for the first half-year of 2003 as compared to a profit of HK\$2.6 million for the same period last year.

The market started to recover in June during which travel agents offered historically low package tour prices to stimulate sales. However, customers tended to choose lower-priced destinations, like Thailand, instead of higher-priced long-haul tour products. Outbound tours to China did not resume until July.

### *Property Division*

Total turnover of the Property Division for the six months ended 30th June, 2003 amounted to only HK\$13.8 million due to the deferred launch of Part I of Phase VIII Firenze, Morning Star Villa, Zhongshan, PRC ("MSV"). The Group's property sales during the 2nd quarter of 2003 was also affected by SARS as the number of on-site tours of MSV by potential purchasers inevitably decreased. The Property Division recorded a loss of HK\$1.2 million for the six months ended 30th June, 2003 as compared to a profit of HK\$17.0 million for the same period last year.

To-date, about 96% of the completed units of Phases I to VII of MSV have been sold. A soft-launch of Phase VIII Firenze of MSV took place in February 2003. Sales are expected to improve during the 2nd half-year of 2003.

As for Morning Star Plaza ("MSP") in Zhongshan, PRC, the completion rate of Part I of the Western site was 57% as at 30th June, 2003. The development of the Western site includes commercial and residential units, together with clubhouse facilities. The launch of the Western site of MSP has been rescheduled to September 2003 due to the current weak market.



### *Hotel Division*

Total turnover for the Group's hotel investment and management business for the six months ended 30th June, 2003 amounted to HK\$14.8 million as compared to HK\$14.1 million for the corresponding period in 2002. The increase over last year was partly attributable to the recent strengthening of the Australian dollar against the Hong Kong dollar. The operating results amounted to a profit of HK\$351,000 for the six months ended 30th June, 2003 as compared to a profit of HK\$445,000 for the corresponding period in 2002.

With the Group's acquisition of a 40% interest in Plaza on Hyde Park Limited in 2001, the Group has equity accounted for its results which amounted to a profit of HK\$716,000 for the six months ended 30th June, 2003.

### *Financial Services Division*

Total turnover of the Group's financial services business for the six months ended 30th June, 2003 improved moderately to HK\$1,064,000 as investors' confidence recovered gradually, compared to HK\$839,000 for the corresponding period in 2002. The turnover of the Financial Services Division is mainly derived from securities broking. The Financial Services Division incurred a loss of HK\$1,052,000 for the first half-year of 2003 as compared to a loss of HK\$751,000 for the corresponding period in 2002.

### *Corporate and Other Businesses*

The turnover for other operations, representing rental income received by the Group in respect of certain leased office space in AXA Centre, amounted to HK\$160,000 for the first half-year of 2003 as compared to HK\$43,000 for the corresponding period in 2002.

In respect of the Group's investment in 1,500,000 shares of the 10% convertible cumulative preferred stock ("Preferred Stock") in Porchlight Entertainment, Inc. ("PEI") for a total consideration of US\$1,500,000 in 2001, PEI declared dividends on the Preferred Stock by way of bonus issues. For the six months ended 30th June, 2003, PEI declared a bonus issue to the Group totalling 84,479 shares of the Preferred Stock. After taking into consideration of the bonus issues received for the six months ended 30th June, 2003 and the year ended 31st December, 2002, the Group holds a total of 1,788,067 shares of the Preferred Stock in PEI. The dividend received by the Group for the six months ended 30th June, 2003, amounting to HK\$659,000 in value, is included in other revenue of the Group.

### *Geographical Segments*

For geographical segments analysis, the revenue and results for Hong Kong SAR mainly relate to travel and travel-related services, financial services and other businesses. The revenue and results for elsewhere in the PRC are principally from property development and agency services. The revenue and results for Australia are derived from hotel investment and management services. The revenue and results for other countries include certain travel and travel-related services conducted outside of Hong Kong SAR.

## REVIEW OF BALANCE SHEET

### *Overview*

Non-current assets of the Group as at 30th June, 2003 amounted to HK\$343.2 million, an increase of HK\$13.6 million as compared to HK\$329.6 million as at 31st December, 2002 after the adoption of SSAP 12 (Revised) "Income Taxes". Non-current assets mainly consist of fixed assets, investment properties, interests in jointly-controlled entities, interests in associates, long term investments, pledged bank balances and time deposits and deferred tax assets. There were little changes in the individual items of non-current assets since 31st December, 2002. Current assets of the Group as at 30th June, 2003 totalled HK\$352.1 million, against HK\$381.1 million as at 31st December, 2002. Current liabilities of the Group as at 30th June, 2003 amounted to HK\$285.7 million, compared with HK\$300.1 million as at 31st December, 2002.

### *Capital Structure, Liquidity and Financial Resources*

As at the balance sheet date, the Group's total borrowings was HK\$200.0 million, comprising mainly short-term bank borrowings, with interest rates ranging from 2.88% to 6.75% per annum fixed at each drawdown date. The Group's banking facilities are mainly denominated in Hong Kong dollars and the total available banking facilities not utilised as at 30th June, 2003 amounted to HK\$21.6 million.

The Group's total current and long term debts as at 30th June, 2003 was HK\$200.0 million as compared to HK\$197.7 million as at 31st December, 2002. The Group's total equity as at the balance sheet date was HK\$274.8 million as compared to HK\$276.4 million as at 31st December, 2002. The Group's gearing ratio as at 30th June, 2003 was 0.73 as compared to 0.72 as at 31st December, 2002. The computation was based on total current and long term debts over the total equity of the Group.

In order to achieve a better control of treasury operations, the Group centralises funding for all of its operations at the Group level. The Group's foreign currency exposure relates mainly to Japanese yen which is required by one of the Group's major subsidiaries, Morning Star Travel Service Limited, for settlement of tour costs incurred in Japan. The Group manages its Japanese yen exposure by way of forward exchange contracts with its principal bankers.

### *Capital Commitments*

The Group had capital commitments totalling HK\$169.0 million as at the balance sheet date. The capital commitments mainly related to the Group's property projects in Zhongshan, PRC. They will be satisfied by funds generated from the sale of properties and from the Group's available cash and banking facilities.

### *Charges on Group assets*

As at the balance sheet date, certain assets of the Group with an aggregate carrying value of HK\$146.7 million were pledged to certain banks to secure banking facilities granted to the Group. In addition, non-current bank balances and time deposits amounting to HK\$10.2 million have been pledged to certain banks to secure mortgage loans granted to purchasers of the properties developed by MSV and MSP.

### *Contingent Liabilities*

As at the balance sheet date, the Group had contingent liabilities amounting to HK\$321.5 million. The contingent liabilities were mainly in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and MSP.

### STAFF ANALYSIS

The total number of staff employed by the Group as at 30th June, 2003 was 519 as compared to 613 as at 31st December, 2002. The Group ensures that the remuneration levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Currently, the Group does not have any share option scheme for employees. The Group has implemented a Total Quality Management programme as part of its overall human resource training and development programme to equip its employees with the necessary skills to deal with the challenges and competition ahead.

### NEW BUSINESS AND MATERIAL ACQUISITION

There was no material acquisition and new business for the period ended 30th June, 2003.

In 2003, the Group will focus on the development of Phase VIII of MSV and the Western site of MSP.

## DIRECTORS' INTERESTS IN THE SECURITIES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June, 2003, the interests of the Directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests which they were deemed or taken to have under such provisions of the SFO, and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### (i) The Company

#### (1) Shares

Name of Director	Nature of interest	Number of shares	Percentage of issued share capital
Tan Sri Dr. KHOO Kay Peng	Corporate	1,763,911,657 (Notes (a) & (b))	73.05%
CHEANG Yoon Hoong	Personal	19,918,500	0.82%
KHET Kok Yin	Personal	6,807,500	0.28%

#### (2) Warrants \*

Name of Director	Nature of interest	The maximum number of shares to be issued upon the exercise of warrants
Tan Sri Dr. KHOO Kay Peng	Corporate	200,716,650 (Note (b))
CHEANG Yoon Hoong	Personal	2,396,210
KHET Kok Yin	Personal	2,456,842

(\* listed on the Stock Exchange)

## (ii) Associated corporation

	Name of Director	Nature of interest	Number of Shares	Percentage of issued share capital
Morning Star Financial Services Limited (“MSFS”)	Tan Sri Dr. KHOO Kay Peng	Corporate	8,192,500 ordinary shares of HK\$1 each <i>(Note (a))</i>	19.09%

As at 30th June, 2003, certain Directors also held qualifying shares in certain subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

### Notes:

- (a) 979,572,985 shares issued by the Company and 8,192,500 shares issued by MSFS were held by Firstway International Investment Limited (“Firstway”), of which each of Norcross Limited (“Norcross”) and Cherubim Investment (HK) Limited (“Cherubim”) had a 35% interest in the voting share capital. A 50% of the issued share capital of each of Norcross and Cherubim was held by KKP Holdings Sdn Bhd (“KKP Holdings”), and the remaining 50% of the issued share capital of each of those companies was held by Soo Lay Holdings Sdn Bhd (“SL Holdings”). Both of KKP Holdings and SL Holdings were beneficially owned by Tan Sri Dr. KHOO Kay Peng. Pursuant to Section 344 of Part XV of the SFO, Tan Sri Dr. KHOO Kay Peng was deemed to be interested in all the shares held by Firstway.
- (b) 784,338,672 shares and 200,716,650 underlying shares of the warrants were held by Bonham Industries Limited (“Bonham”) which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. By virtue of Tan Sri Dr. KHOO Kay Peng’s interests in KKP Holdings and SL Holdings as mentioned in Note (a) above, he was deemed to be interested in all the shares and warrants held by Bonham.

Save as disclosed above, the Company had not been notified of any interests or short positions in any shares and underlying shares of the warrants and in debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO.

## OTHER SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2003, the interests of persons, other than the Directors, holding 5% or more of the securities of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, including interests which they were deemed or taken to have under such provisions of the SFO, and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

### (i) Interests of substantial shareholders (as defined in the Listing Rules)

#### (1) Shares

Name	Number of shares	Percentage of issued share capital
CHAI Siew Phin, Pauline	1,763,911,657 (Note (a))	73.05%
KKP Holdings Sdn Bhd ("KKP Holdings")	1,763,911,657 (Notes (b) & (c))	73.05%
Soo Lay Holdings Sdn Bhd ("SL Holdings")	1,763,911,657 (Notes (b) & (c))	73.05%
Cherubim Investment (HK) Limited ("Cherubim")	979,572,985 (Note (b))	40.57%
Norcross Limited ("Norcross")	979,572,985 (Note (b))	40.57%
Firstway International Investment Limited ("Firstway")	979,572,985 (Note (b))	40.57%
Bonham Industries Limited ("Bonham")	784,338,672 (Note (c))	32.48%

#### (2) Warrants \*

Name	The maximum number of shares to be issued upon the exercise of warrants
CHAI Siew Phin, Pauline	200,716,650 (Note (a))
KKP Holdings	200,716,650 (Notes (b) & (c))
SL Holdings	200,716,650 (Notes (b) & (c))
Bonham	200,716,650 (Note (c))

(\* listed on the Stock Exchange)

*Notes:*

- (a) Pursuant to Section 316 of Part XV of the SFO, Ms CHAI Siew Phin, Pauline being Tan Sri Dr. KHOO Kay Peng's spouse was deemed to be interested in all the shares and warrants in which Tan Sri Dr. KHOO Kay Peng were interested. The same interests have been disclosed by Tan Sri Dr. KHOO Kay Peng under the heading "Directors' interests in the securities and debentures of the Company and its associated corporations" above.
- (b) These shares were held by Firstway, of which each of Norcross and Cherubim had a 35% interest in the voting share capital. Norcross and Cherubim were owned as to 50% by KKP Holdings and 50% by SL Holdings. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings, SL Holdings, Norcross and Cherubim was deemed to be interested in the shares held by Firstway.
- (c) These shares and warrants were held by Bonham, which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings and SL Holdings was deemed to be interested in the shares and warrants held by Bonham.

**(ii) Interests of other persons**

Name	Number of shares	Percentage of issued share capital
Hope Foundation ("HF")	176,270,500 (Note)	7.30%
Hope International Limited ("HIL")	176,270,500 (Note)	7.30%
Prime View International Limited ("PVI")	176,270,500 (Note)	7.30%

*Note: These shares were held by PVI. PVI is 100% owned by HIL which in turn is 100% owned by HF. Pursuant to Section 316 of Part XV of the SFO, each of HIL and HF was deemed to be interested in all the shares held by PVI.*

Save as disclosed above, the Company had not been notified of any interests or short positions in any shares and underlying shares of the warrants of the Company which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO.



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the period.

## **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

## **AUDIT COMMITTEE**

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim results of the period. The audit committee constituted two Independent Non-Executive Directors and a Non-Executive Director of the Company.

By Order of the Board  
**CHEANG YOON HOONG**  
*Managing Director*

Hong Kong, 5th September, 2003