



On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company and the Group for the year ended 31st December, 2003.

FINANCIAL RESULTS

The Group recorded a pre-tax loss of HK\$23.04 million for the financial year ended 31st December, 2003 (2002: profit of HK\$22.52 million). The consolidated net loss attributable to shareholders for 2003 amounted to HK\$23.93 million (2002: a restated profit of HK\$0.08 million).

DIVIDEND

The Directors do not recommend the payment of a dividend for the financial year ended 31st December, 2003 (2002: Nil).

REVIEW OF OPERATIONS

Travel and Tourism Division

website: www.morningstar.com.hk



Hong Kong went through a very challenging year in 2003 following the outbreak of SARS in mid-March. However, the Hong Kong economy staged a rapid rebound by the third quarter. The signing of the Mainland China and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and the launch of the Individual Visit Scheme provided a fresh impetus to Hong Kong's economic recovery. The signing of CEPA further enhances China's commitments to the World Trade Organization. The Individual Visit Scheme which now covers Beijing, Shanghai and many cities in Guangdong and will be extended to cover the whole of Guangdong province by May this year, is a major initiative to revitalise Hong Kong's economy.

The export sector remained robust in 2003. Unemployment rate reached a record high of 8.7% in July before falling to 7.3% in December 2003. The number of homeowners in negative equity surged to about 106,000



Malaysia Tourism Awards 2003
— Best Foreign Tour Operator
(East Asia)



in June 2003 before dropping to about 68,000 at the end of 2003. Deflation was tapering off. For 2003 as a whole the composite Consumer Price Index fell by an average of 2.6%. Property prices and the share market were subdued until towards the end of 2003 which significantly boosted consumer sentiment. Under such conditions, Hong Kong's GDP grew from 2.3% in 2002 to 3.3% in real terms in 2003.



*Award Superbrands
Hong Kong 2004*



*Gold Award 2002/2003
Malaysia Airlines*



*Certificate of Appreciation for
Fiscal Year 2002
Japan Airlines*

Following the outbreak of SARS, Morning Star Travel Service Limited ("MST") promptly implemented a series of cost reduction measures to conserve cash resources.

Immediately after the World Health Organization had lifted the travel advisory against Hong Kong on 23rd May, 2003, and in a bid to revive the outbound travel business, MST offered a range of outbound tour packages on a selective basis at very competitive prices. The volume of business of MST's outbound department, in terms of the number of outbound passengers, quickly resumed to normal level during the third quarter. Business volume rebounded strongly during the second half year after a significant

dip during the first half year with the result that the outbound passenger numbers for the whole of 2003 fell short of last year's figure by only a small number.



*2002 Top Agent Award
Cathay Pacific Airways*

After a very challenging year 2003, MST recorded a 25% decrease in turnover as compared to 2002. With stringent control of operating expenses, MST successfully reduced its total operating expenses by 8% as compared to 2002. Overall, the Travel and Tourism Division of the Group recorded an operating loss of HK\$7.6 million for 2003 (2002: profit of HK\$4.5 million).

Under a difficult and very competitive business environment, MST continued to enhance the quality of its services and travel products as well as brand name. As a result of such efforts, Morning Star was awarded "Award Superbrands Hong Kong 2004" by the Hong Kong Superbrands Council



*2002 Million Dollar
Sales Award
China Airlines*



*SIA Top Agent Award Hong Kong
2002/2003
Singapore Airlines*



2003 Citation of Excellence
Korean Air

and the “Malaysia Tourism Awards 2003 – Best Foreign Tour Operator (East Asia)” by the Ministry of Culture, Arts and Tourism of Malaysia for a third consecutive year. During 2003, MST also received various awards presented by major airlines such as “Gold Award 2002/2003” by Malaysia Airlines, “2002 Top Agent Award” by Cathay Pacific Airways, “Certificate of Appreciation for Fiscal Year 2002” by Japan Airlines, “2002 Million Dollar Sales Award” by China Airlines, “SIA Top Agent Award Hong Kong



Top Agent Award 2002
Asiana Airlines

2002/2003” by Singapore Airlines, “2003 Citation of Excellence” by Korean Air, “Top Agent Award 2002” by Asiana Airlines and “Best Performing Agent Award Star Pisces 2002” by Star Cruises.

Beijing Morning Star–New Ark International Travel Service Co., Ltd., the Group’s 49%–owned joint venture company in Beijing, the People’s Republic of China (“PRC”), recorded a modest profit for 2003, despite the adverse impact of SARS in Beijing.

Property Division

website: www.morningstarvilla.com



Phase VI of MSV, Zhongshan

Phase VII Canale DiVenezia
of MSV, Zhongshan





Phase VIII Firenze of MSV, Zhongshan

The construction of Part I of Phase VIII Firenze of Morning Star Villa (“MSV”) in Zhongshan, PRC is scheduled to be completed during the second half of 2004. To-date, over 96% of the units built under Phases I to VII of MSV have been sold.

During 2003, MSV won various awards including:–

- in June 2003, Phase VIII Firenze of MSV was conferred “The Successful Model of Green Housing Development in China” (中國地產綠色住宅成功開發典範) by China Real Estate Association.



The Successful Model of Green Housing Development in China

- in June 2003, MSV was bestowed the award of “Guangdong Green Residential District” (廣東省綠色住區) by Guangdong Real Estate Association.



Guangdong Green Residential District



Advanced Security Corps of Zhongshan

- in December 2003, the Security Department of MSV received an award entitled “Advanced Security Corps of Zhongshan” (中山市先進保安隊) by Zhongshan Public Security Bureau, Zhongshan General Labor Union, Zhongshan Communist Youth League and Zhongshan Spiritual Civilization Committee.
- in December 2003, the Ecological Residential District Project of MSV was conferred “The Typical Project of Ecological Construction in Human Settlements” (人居生態建設實驗示範工程) by China Ecology Academy.



As for Morning Star Plaza ("MSP") in Zhongshan, PRC which is targeting at domestic buyers, the pre-sale of units under Parts I and II of the Western site marketed as "COLOURFUL CITY"



Colourful City, Western Site of MSP

was launched in September 2003. The response was encouraging. The construction of Parts I and II of the Western site of MSP is expected to be completed during the second quarter and the third quarter of 2004 respectively.

Due to the prevailing weak property market and an apparent over-supply of properties in Zhongshan during 2003, the launch of Phase VIII Firenze of MSV and the Western site of MSP had been postponed. Together with other economic and market factors, the total turnover of the Property Division for 2003 reduced noticeably compared with 2002. The Property Division recorded a loss of HK\$10.2 million for 2003.

Hotel Division

Morning Star Holdings (Australia) Limited ("MSA"), an Australian subsidiary in which the Group has a 69.5% interest, registered an unaudited consolidated loss after tax of A\$0.14 million (approximately HK\$0.73 million) for the year ended 31st December, 2003 as compared to a profit of A\$0.11 million (approximately HK\$0.48 million) for 2002. After the sale of its last hotel property in Australia in October 2003, MSA is actively looking for new investment opportunities in Australia.



Corus hotel Hyde Park, London

The Plaza on Hyde Park Limited ("POHP"), which owns Corus hotel Hyde Park (formerly known as Plaza on Hyde Park Hotel) in London, United Kingdom, posted a profit before tax of GBP0.58 million (approximately HK\$7.42 million) (2002: GBP1.05 million (approximately HK\$13.07 million)). With a 40% interest in POHP, the Group has equity accounted for its profit before tax amounting to HK\$2.97 million for 2003 (2002: HK\$4.97 million).

Financial Services Division

After acquiring a further 18.64% interest in Morning Star Financial Services Limited ("MSFS") in December 2003, the Group's interest in MSFS increased from 78.35% to 96.99%. The principal activity of the MSFS Group is securities broking.



As investors' confidence recovered gradually during the second half of 2003, share trading activities increased correspondingly. The MSFS Group recorded a total turnover of HK\$5.13 million for 2003 (2002: HK\$0.91 million). For the year ended 31st December, 2003, MSFS Group recorded an audited consolidated net profit after tax of HK\$1.31 million (2002: HK\$2.73 million).

OUTLOOK

Looking ahead, Hong Kong will continue to be affected invariably by external political and economic factors. Recent economic indicators suggest that mainland China's economy will maintain a steady growth rate of 7% to 8% annually in the foreseeable future. The near-term outlook of the US economy appears promising in view of its strong performance in recent months whereas the European Union economy appears likely to maintain a steady, if not faster growth, in 2004. Under such conditions, Hong Kong's external trade is forecast to maintain a solid growth in 2004. With the further extension of the Individual Visit Scheme for visitors from mainland China, inbound tourism appears to head for another surge this year.

With improvement in property prices and stock market trading activities in recent months, consumer and investor sentiment is recovering gradually. Furthermore, with employment situation improving, a high level of bank liquidity and low interest rates, domestic demand is expected to increase compared with last year.

Deflation is projected to ease further in 2004. As regards the impact of the recent outbreak of H5N1 avian influenza, the Government of Hong Kong SAR has in place a comprehensive plan to deal with such threat and is confident that the impact will be minimal. Overall, the Government has forecast that Hong Kong's GDP will grow by 6% in real terms in 2004. However, despite the bullish economic outlook for 2004, the Group will continue to adopt a prudent approach for its core business activities whilst keeping a strong rein on its operational expenses.

ACKNOWLEDGMENT

On behalf of the Board, I would like to thank the management and staff for their dedication and commitment. To our valued customers and shareholders, I would like to express our sincere appreciation for the continued support.

TAN SRI DR. KHOO KAY PENG

Chairman

Hong Kong , 30th March, 2004