

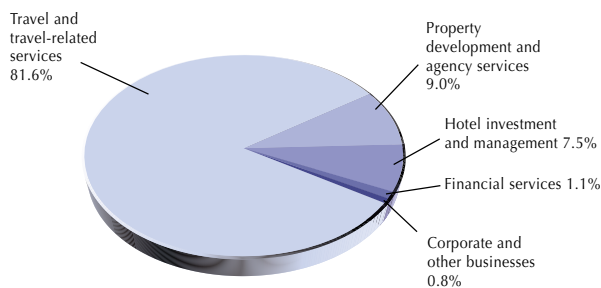


REVIEW OF FINANCIAL RESULTS

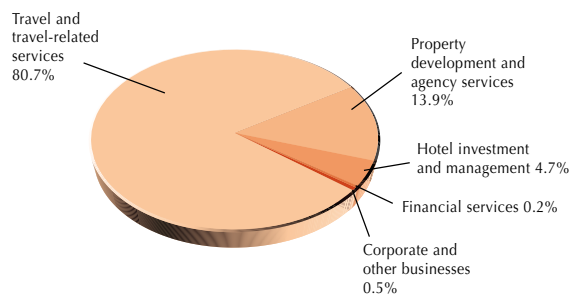
Financial Highlights

	2003		2002	
	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>
By business segments:				
Travel and travel-related services	364,488	(7,630)	489,964	4,455
Property development and agency services	40,104	(10,204)	84,210	24,413
Hotel investment and management	33,566	3,445	28,598	966
Financial services	5,125	471	914	1,382
Corporate and other businesses	3,486	3,262	3,399	1,544
Eliminations	(4,052)	—	(3,215)	—
	442,717	(10,656)	603,870	32,760
Interest and dividend income	—	3,641	—	4,247
Unallocated expenses	—	(11,369)	—	(14,864)
Total	442,717	(18,384)	603,870	22,143

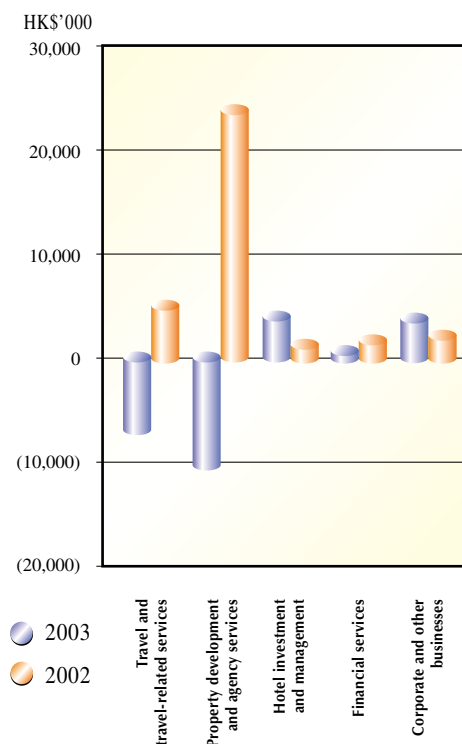
Turnover by Business Segments - 2003



Turnover by Business Segments - 2002



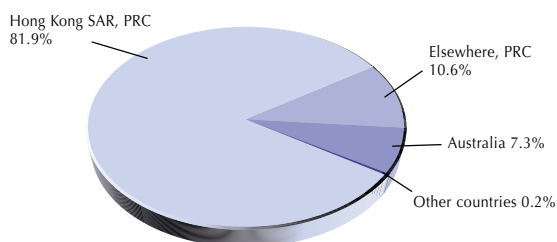
Contribution by Business Segments



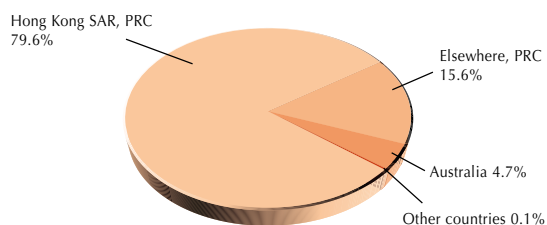


	2003		2002	
	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>
By geographical segments:				
People's Republic of China ("PRC"):				
Hong Kong SAR	362,533	(3,198)	480,962	8,654
Elsewhere	46,740	(10,508)	93,958	23,774
Australia	32,377	2,314	28,406	(19)
Other countries	1,067	736	544	351
Eliminations	—	—	—	—
	442,717	(10,656)	603,870	32,760
Interest and dividend income	—	3,641	—	4,247
Unallocated expenses	—	(11,369)	—	(14,864)
Total	442,717	(18,384)	603,870	22,143

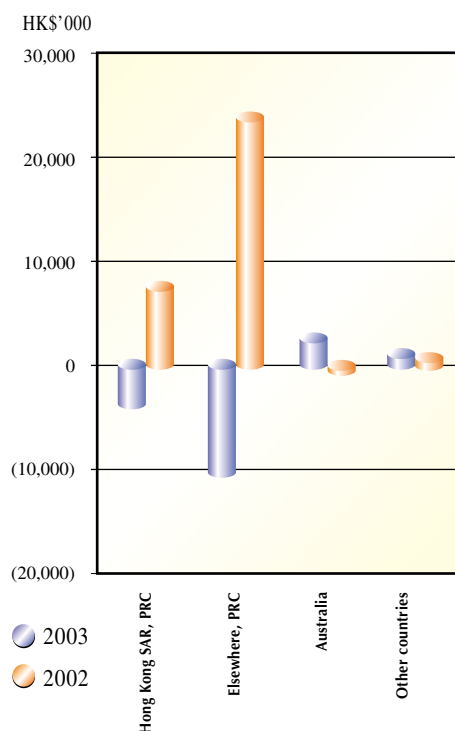
Turnover by Geographical Segments - 2003



Turnover by Geographical Segments - 2002



Contribution by Geographical Segments





Group Overview

For the year ended 31st December, 2003, the Group's consolidated turnover amounted to HK\$442,717,000, a decrease of 26.7% as compared to HK\$603,870,000 for 2002. During the first half of 2003, the Group's core business of travel and travel-related services was affected by concerns 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. Following the outbreak of SARS, the Group implemented a series of cost reduction measures to minimize the unfavourable impact and 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 year under review, the Group recorded a loss from operating activities of HK\$18,384,000 as compared to a profit of HK\$22,143,000 for 2002. The net loss from ordinary activities attributable to shareholders for the year ended 31st December, 2003 amounted to HK\$23,928,000, against a net restated profit of HK\$84,000 for 2002.

Travel and Tourism Division

Total turnover for the Group's travel and travel-related services for the year ended 31st December, 2003 amounted to HK\$364,488,000, a decrease of 25.6% as compared to HK\$489,964,000 for 2002. Morning Star Travel's Outbound Department recorded a lower total turnover compared with last year. The Travel and Tourism Division faced its greatest commercial challenge in the Group's history in the first half of 2003. The conflict in Iraq and the outbreak of SARS were the main factors which resulted in a decrease of outbound passenger numbers by about 30% and a decline in total turnover by about 40% in the first half year compared with the corresponding period last year. The market started to recover in the second half of the year during which travel agents offered historically low package tour prices to stimulate sales. However, persistent deflation, high unemployment rate and intense competitions continued to exert downward pressures on our tour fares and profit margins.

Overall, the Travel and Tourism Division recorded a loss of HK\$7,630,000 as compared to a profit of HK\$4,455,000 for 2002.

Property Division

Total turnover of the Property Division for the year ended 31st December, 2003 amounted to HK\$40,104,000 as compared to HK\$84,210,000 for 2002 as stock on hand under Phases I to VII were sold at discounted prices and Phase VIII Part I Firenze was still under construction. The Property Division recorded a loss of HK\$10,204,000 for 2003 as compared to a profit of



HK\$24,413,000 for 2002, partly due to the slower pace of construction of Phase VIII Firenze of Morning Star Villa and the Western site of Morning Star Plaza. The construction work of Phase VIII Part I of Morning Star Villa is rescheduled to be completed during the second half of 2004. Morning Star Villa continued its marketing strategy of focusing on its niche target market, i.e. government officials and middle class income buyers. For Morning Star Plaza, Part I and Part II of "COLOURFUL CITY" on the Western site were launched in September 2003. For Part I, 58 units amounting to a total sales value of HK\$10,991,000 were sold by year-end 2003. For Part II, as percentage of completion of construction work was less than 30% as at year-end, sales of 32 units amounting to HK\$6,275,000 would be taken up in 2004.

Hotel Division

Total turnover for the Group's hotel investment and management business for the year ended 31st December, 2003 amounted to HK\$33,566,000 as compared to HK\$28,598,000 for 2002. The operating profit amounted to HK\$3,445,000 as compared to HK\$966,000 for 2002. The improvement in both turnover and operating results in 2003 was attributable to improvement in occupancy rates, average room rates and the recent strengthening of the Australian dollar against the Hong Kong dollar. The Group's hotel property in Australia, Corus Grosvenor hotel in Adelaide, was sold in October 2003.

As regards the Group's 40% interest in Corus hotel Hyde Park (formerly known as Plaza on Hyde Park Hotel) in London, the Group has equity accounted for its profit before tax amounting to HK\$2,966,000 for the year ended 31st December, 2003 (2002: HK\$4,965,000).

Financial Services Division

The turnover of the Financial Services Division for the year ended 31st December, 2003 derived from securities broking commission, management fees and financial services related income.

The overall impact of the outbreak of SARS in Hong Kong on the securities market proved short-lived. Activity in the Hong Kong stock market picked up sharply towards the second half of the year. Total turnover of the Group's Financial Services Division for the year ended 31st December, 2003 amounted to HK\$5,125,000 as compared to HK\$914,000 for 2002. The operating results were a profit of HK\$471,000 as compared to a profit of HK\$1,382,000 for 2002.

Corporate and Other Businesses

The turnover for other operations, representing rental income in respect of certain leased office space in AXA Centre, amounted to HK\$423,000 for the year ended 31st December, 2003 (2002: HK\$184,000).



In respect of the Group's 1,500,000 shares of the 10% convertible cumulative preferred stock in Porchlight Entertainment, Inc., dividends on the preferred stock by way of bonus issues totalling 90,138 shares were received by the Group in 2003. After taking into consideration of such bonus issues, the Group holds a total of 1,878,205 shares of the preferred stock in Porchlight Entertainment, Inc.. The dividends, which amounted to HK\$1,365,000 in value, were included in other revenue.

Geographical Segments

In analysing the geographical segments, the revenue for Hong Kong SAR mainly relates to travel and travel-related services, financial services and other businesses. The revenue for elsewhere in the PRC is principally from property development and agency services. The revenue for Australia is derived from hotel investment and management services. The revenue for other countries relates to travel and travel-related services conducted outside Hong Kong.

REVIEW OF BALANCE SHEET

Overview

Non-current assets as at 31st December, 2003, consisting of property, plant and equipment, investment properties, interests in jointly-controlled entities, interests in associates, long term investments, pledged bank balances, time deposits and deferred tax assets, amounted to HK\$302,208,000, a decrease of HK\$27,434,000 as compared to a restated amount of HK\$329,642,000 as at 31st December, 2002. Current assets as at 31st December, 2003 totalled HK\$331,872,000, against a restated amount of HK\$381,068,000 as at 31st December, 2002. Current liabilities as at 31st December, 2003 amounted to HK\$269,744,000, compared with HK\$300,134,000 as at 31st December, 2002.

Capital Structure, Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings was HK\$137,743,000, comprising mainly short-term bank borrowings with interest rates ranging from 1.99% to 6.75% per annum. The Group's available banking facilities not utilised totalled HK\$42,258,000 as at 31st December, 2003.

Group current and long-term debts as at 31st December, 2003 amounted to HK\$154,453,000 (2002: HK\$197,724,000). The Group's total equity as at the balance sheet date was HK\$278,109,000 (2002: HK\$276,380,000).



The Group's gearing ratio as at the balance sheet date was 0.56 as compared to 0.72 for 2002. The gearing ratio was based on total current and long-term debts over the total equity of the Group. The Group's gearing ratio improved in 2003 as certain current debts were repaid during the year.

As part of treasury management, the Group centralises funding for all of its operations at the Group level. Financing is arranged at the Group level. The Group's foreign currency exposure relates mainly to Japanese yen which is required by Morning Star Travel Service Limited for settlement of tour costs incurred in Japan. The Group manages its foreign exchange exposure generally by way of forward contracts with its principal bankers.

Capital Commitments

The Group had capital commitments totalling HK\$181,300,000 as at the balance sheet date. Such commitments were in respect of the Group's property projects in Zhongshan, the PRC. It 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\$87,893,000 were pledged to certain banks to secure banking facilities to the Group. In addition, non-current bank balances and time deposits amounting to HK\$7,687,000 were pledged to certain banks to secure mortgage loan facilities to purchasers of properties developed by Morning Star Villa and Morning Star Plaza in Zhongshan, the PRC.

STAFF ANALYSIS

The total number of staff employed by the Group as at 31st December, 2003 was 433 as compared to 613 as at 31st December, 2002. As part of the Group's human resource policy, 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 a share option scheme for its employees. The Group continues to implement the Total Quality Management programme as part of its overall human resource training and development programme to equip its employees with the necessary skills and experience to deal with the challenges and competition ahead.

NEW BUSINESS AND MATERIAL ACQUISITION

There was no material acquisition and new business for the year ended 31st December, 2003.