



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. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

In current year the Group has adopted the following revised SSAP issued by the Hong Kong Society of Accountants:

- SSAP 12 (Revised): “Income taxes”

The changes to accounting policies and the effects are as follows:

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years, partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount 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, the new accounting policy has been adopted retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses for 2002 and 2003 has been decreased by HK\$8,669,000 and HK\$6,660,000 respectively which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is a reduced charge to income taxes in the current year of HK\$476,000 (2002: increased HK\$2,009,000).



3. PRINCIPAL 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, 2003. 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.



Property, plant and equipment

Property, plant and equipment 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 $\frac{1}{3}$ %
Hotel plant and equipment	5% to 20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a property, plant and equipment 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.

Property under development

Property under development is 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 property, plant and equipment 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.



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 account 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.



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.

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.



Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Tax

The charge for tax is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly-controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



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.



(i) Business segments

The following tables present revenue, (loss)/profit and certain assets, liabilities 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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	364,488	489,964	40,104	84,210	33,566	28,598	4,136	914	423	184	—	—	442,717	603,870
Intersegment sales	—	—	—	—	—	—	989	—	3,063	3,215	(4,052)	(3,215)	—	—
Other revenue and gains	5,722	6,394	2,581	3,335	—	—	169	6,804	746	306	—	—	9,218	16,839
Total revenue	<u>370,210</u>	<u>496,358</u>	<u>42,685</u>	<u>87,545</u>	<u>33,566</u>	<u>28,598</u>	<u>5,294</u>	<u>7,718</u>	<u>4,232</u>	<u>3,705</u>	<u>(4,052)</u>	<u>(3,215)</u>	<u>451,935</u>	<u>620,709</u>
Segment results	<u>(7,630)</u>	<u>4,455</u>	<u>(10,204)</u>	<u>24,413</u>	<u>3,445</u>	<u>966</u>	<u>471</u>	<u>1,382</u>	<u>3,262</u>	<u>1,544</u>	<u>—</u>	<u>—</u>	<u>(10,656)</u>	<u>32,760</u>
Interest and dividend income													3,641	4,247
Unallocated expenses													(11,369)	(14,864)
(Loss)/profit from operating activities													(18,384)	22,143
Finance costs													(6,653)	(6,870)
Share of profits and losses of associates	(684)	(45)	(7)	230	2,966	4,965	—	—	—	3,267	—	—	2,275	8,417
Share of profits and losses of jointly - controlled entities	17	(89)	(293)	(1,082)	—	—	—	—	—	—	—	—	(276)	(1,171)
(Loss)/profit before tax													(23,038)	22,519
Tax													(6,655)	(9,866)
(Loss)/profit after tax													(29,693)	12,653
Minority interests													5,765	(12,569)
Net (loss)/profit from ordinary activities attributable to shareholders													(23,928)	84

Notes to Financial Statements

31st December, 2003



	Travel and travel-related services		Property development and agency services		Hotel investment and management		Financial services		Corporate and other businesses		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	157,127	174,322	310,871	323,308	38,487	104,735	43,295	60,922	275,845	354,921	(350,614)	(444,880)	475,011	573,328
Interests in associates	(1,718)	(593)	407	376	117,558	105,968	—	—	—	—	—	—	116,247	105,751
Interests in jointly-controlled entities	1,207	1,334	4,773	7,891	—	—	—	—	—	—	—	—	5,980	9,225
Unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	36,842	22,406
Total assets													634,080	710,710
Segment liabilities	254,177	272,011	54,110	55,705	13,873	66,451	11,533	14,200	132,208	153,997	(350,610)	(444,880)	115,291	117,484
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	154,453	197,724
Total liabilities													269,744	315,208
Other segment information:														
Capital expenditure	364	237	—	1,045	4,338	680	—	19	—	239	—	—	4,702	2,220
Depreciation	671	821	1,002	1,110	2,616	2,414	33	37	1,321	2,281	—	—	5,643	6,663
Amortisation	—	—	—	—	—	—	—	145	—	—	—	—	—	145
Impairment losses recognised in profit and loss account	—	—	—	—	—	—	—	1,091	—	—	—	—	—	1,091
Provision for impairment of properties held for sale	400	—	—	—	—	—	—	—	—	—	—	—	400	—



(ii) Geographical segments

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

	Hong Kong SAR		Elsewhere in the PRC		Australia		Other countries		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	<u>362,333</u>	<u>480,962</u>	<u>46,740</u>	<u>93,958</u>	<u>32,377</u>	<u>28,406</u>	<u>1,067</u>	<u>544</u>	<u>—</u>	<u>—</u>	<u>442,717</u>	<u>603,870</u>
Other segment information:												
Segment assets	<u>167,130</u>	<u>251,604</u>	<u>319,962</u>	<u>334,500</u>	<u>25,802</u>	<u>92,749</u>	<u>162,813</u>	<u>122,827</u>	<u>(41,627)</u>	<u>(90,970)</u>	<u>634,080</u>	<u>710,710</u>
Expenditure information:												
Capital expenditure	<u>359</u>	<u>495</u>	<u>5</u>	<u>1,044</u>	<u>4,338</u>	<u>681</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,702</u>	<u>2,220</u>



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:

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Turnover			
Travel and travel-related services		364,488	489,964
Property development and agency services		40,104	84,210
Hotel investment and management		33,566	28,598
Financial services		4,136	914
Others		423	184
		442,717	603,870
Other revenue			
Interest income		2,276	3,012
Income arising from deposits on properties forfeited by purchasers		118	473
Visa income		1,037	1,372
Commission income		3,557	3,997
Dividend from unlisted long term investments		1,365	1,235
Investment management fee income		—	3,548
Unclaimed dividend and money		169	2,166
Recovery of a long term investment previously written off		—	1,038
Others		3,387	3,506
		11,909	20,347
Gains			
Gain on disposal of a subsidiary	<i>33(a)</i>	—	295
Negative goodwill recognised as income for the year		950	444
		950	739
		12,859	21,086



6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2003	2002
	HK\$'000	HK\$'000
Cost of inventories sold	3,330	6,564
Cost of services provided	338,383	443,109
Cost of properties sold	19,129	30,522
Depreciation	5,643	6,663
Minimum lease payments under operating leases in respect of land and buildings	11,193	10,965
Auditors' remuneration	682	913
Staff costs (including directors' remuneration, note 8):		
Wages and salaries	34,732	41,239
Pension contributions	1,699	1,981
Less: forfeited contributions	(316)	(249)
Net pension contributions	1,383	1,732
Total staff costs	36,115	42,971
Provision for impairment of properties held for sale*	400	—
Provision for impairment of long term investments*	—	1,091
(Gain)/loss on disposal of property, plant and equipment	(533)	8
Loss/(gain) on short term investments	295	(407)
Goodwill amortisation*	—	145
Foreign exchange (gains)/losses, net	(120)	289

* 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, 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).



7. FINANCE COSTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	6,634	6,849
Interest on finance leases	19	21
	<hr/>	<hr/>
Total finance costs	6,653	6,870
	<hr/>	<hr/>

8. DIRECTORS' REMUNERATION

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Executive Director	5	5
Non-Executive Directors	35	35
Other emoluments:		
Executive Director:		
Basic salaries, housing, other allowances and benefits in kind	1,060	1,200
Pension contributions	43	45
Non-Executive Directors:		
Other allowances	110	120
	<hr/>	<hr/>
	1,253	1,405
	<hr/>	<hr/>



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

	Group	
	2003	2002
	Number of Directors	Number of Directors
Nil — HK\$1,000,000	5	6
HK\$1,000,001 — HK\$1,500,000	1	1
	6	7

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 (2002: 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 (2002: four) non-director, highest paid employees fell within the band of Nil — HK\$1,000,000 and is analysed below:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing, other allowances and benefits in kind	2,136	2,305
Pension contributions	58	74
	2,194	2,379

During the year, no bonuses were paid or payable by the Group to the four non-director, highest paid employees (2002: Nil).



10. TAX

- (a) The amount of tax in the consolidated profit and loss account represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Tax		
- Overseas	9,513	3,594
Deferred tax		
- Current year	(4,660)	2,009
- Effect of change in tax rate on deferred tax balances at 1st January	(624)	—
Share of taxation attributable to an associate	2,426	4,263
	6,655	9,866

No provision for Hong Kong profits tax has been made as the Company and the Group has no assessable profits arising in Hong Kong for the year (2002: Nil).



(b) Reconciliation between tax charge and accounting profit at applicable tax rates:

	Group	
	2003	2002
	HK\$'000	HK\$'000
(Loss)/profit before tax	(23,038)	22,519
Notional tax on (loss)/profit before tax, calculated at the rates applicable to profits/(losses) in the countries concerned	(5,042)	6,304
Tax effect of income that are not taxable in determining taxable profit	(462)	(1,866)
Tax effect of expenses that are not deductible in determining taxable profit	6,445	3,176
Tax effect of unused tax losses not recognised	5,687	4,324
Tax effect of utilisation of tax losses not previously recognised	(786)	(278)
Increase in opening deferred tax asset resulting from an increase in tax rate	(624)	—
Under/(over)-provision in prior years	1,437	(1,794)
Tax charge	6,655	9,866

11. NET (LOSS)/PROFIT 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\$85,864,000 (2002: HK\$7,565,000).

12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the net loss attributable to shareholders for the year of HK\$23,928,000 (2002: net restated profit of HK\$84,000) and on the 2,414,547,555 shares (2002: 2,414,547,555 shares) in issue during the year.

A diluted (loss)/earnings per share for the years ended 31st December, 2003 and 2002 has not been shown as the warrants outstanding during these years had an anti-dilutive effect on the basic (loss)/earnings per share for these years.



13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings <i>HK\$'000</i>	Office furniture, fixtures and equipment <i>HK\$'000</i>	Hotel plant and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1st January, 2003	271,098	36,071	11,122	3,897	322,188
Additions	1,638	2,968	96	—	4,702
Disposals	(63,765)	(9,641)	(14,736)	(200)	(88,342)
Exchange realignment	15,179	1,828	3,518	48	20,573
At 31st December, 2003	<u>224,150</u>	<u>31,226</u>	<u>—</u>	<u>3,745</u>	<u>259,121</u>
Accumulated depreciation and impairment:					
At 1st January, 2003	123,252	31,375	4,971	3,229	162,827
Charge for the year	2,604	1,700	1,189	150	5,643
Disposals	(8,158)	(4,059)	(7,895)	(103)	(20,215)
Exchange realignment	1,917	1,044	1,735	21	4,717
At 31st December, 2003	<u>119,615</u>	<u>30,060</u>	<u>—</u>	<u>3,297</u>	<u>152,972</u>
Net book value:					
At 31st December, 2003	<u>104,535</u>	<u>1,166</u>	<u>—</u>	<u>448</u>	<u>106,149</u>
At 31st December, 2002	<u>147,846</u>	<u>4,696</u>	<u>6,151</u>	<u>668</u>	<u>159,361</u>



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

	2003	2002
	HK\$'000	HK\$'000
Freehold, overseas	3,131	50,079
Long term leases, Hong Kong SAR	190,998	190,998
Long term leases, mainland China	30,021	30,021
	<u>224,150</u>	<u>271,098</u>

The net book value of assets held under finance leases at 31st December, 2003, included in the total amount of motor vehicles and office equipment, amounted to Nil (2002: HK\$93,000).

Certain property, plant and equipment with an aggregate net book value of HK\$80,819,000 (2002: HK\$132,490,000) have been pledged to secure banking facilities granted to the Group (*note 27*).



Company

	Office furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1st January, 2003 and 31st December, 2003	<u>6,765</u>	<u>2,067</u>	<u>8,832</u>
Accumulated depreciation:			
At 1st January, 2003	6,442	2,067	8,509
Charge for the year	<u>221</u>	<u>—</u>	<u>221</u>
At 31st December, 2003	<u>6,663</u>	<u>2,067</u>	<u>8,730</u>
Net book value:			
At 31st December, 2003	<u>102</u>	<u>—</u>	<u>102</u>
At 31st December, 2002	<u>323</u>	<u>—</u>	<u>323</u>

14. INVESTMENT PROPERTIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At beginning of year	7,074	10,505
Transfer to property, plant and equipment	—	(10,505)
Transfer from property, plant and equipment	<u>—</u>	<u>7,074</u>
At end of year	<u>7,074</u>	<u>7,074</u>



The investment properties are situated in Hong Kong SAR and are held under long term leases. At 31st December, 2003, 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 34 and 37.

The investment properties have been pledged to a bank to secure banking facilities granted to the Group (note 27).

Further particulars of the Group's investment properties are included on page 89.

15. PROPERTY UNDER DEVELOPMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
At cost	32,910	32,910
Provision for impairment	(29,104)	(29,104)
	3,806	3,806

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	23,133	23,408
Due to jointly-controlled entities	(17,153)	(14,183)
	5,980	9,225

The amounts due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.



Details of the jointly-controlled entities as at 31st December, 2003 were as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Owner- ship 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 Co., Ltd.*	Corporate	People's Republic of China	49	49	49	Provision of travel services

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

17. INTERESTS IN ASSOCIATES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	—	—	118,757	118,757
Share of net assets	119,046	108,148	—	—
Negative goodwill on acquisition	(203)	(406)	—	—
Due from associates	1,237	1,201	1,152	1,112
Due to associates	(3,833)	(3,192)	—	—
	116,247	105,751	119,909	119,869
Provision for impairment	—	—	(24,186)	(24,186)
	116,247	105,751	95,723	95,683



The amounts due from/(to) associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal associates were as follows:

Name of company	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2003	2002	
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
Pearl's Tours and Travel Service Company Limited*	Corporate	Thailand	49	49	Provision of travel services

* Not audited by RSM Nelson Wheeler or other RSM 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 from the audited financial statements of Plaza on Hyde Park Limited are as follows:

	2003 HK\$'000	2002 HK\$'000
Non-current assets	701,978	628,347
Current assets	25,080	12,458
Current liabilities	20,168	87,910
Non-current liabilities	315,589	199,679
Turnover	83,749	88,163
Net profit for the year	<u>1,295</u>	<u>11,867</u>



18. INVESTMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Long term investments:				
Listed equity investments, at cost:				
Hong Kong SAR	1,882	1,255	—	—
Overseas	18,760	1,038	—	—
	<u>20,642</u>	<u>2,293</u>	<u>—</u>	<u>—</u>
Provision for impairment	(1,784)	(479)	—	—
	<u>18,858</u>	<u>1,814</u>	<u>—</u>	<u>—</u>
Unlisted equity investments, at cost	2,914	7,671	—	—
Unlisted investment in convertible cumulative preference stock, at cost	14,649	13,291	14,649	13,291
Provision for impairment	—	(951)	—	—
	<u>17,563</u>	<u>20,011</u>	<u>14,649</u>	<u>13,291</u>
	<u>36,421</u>	<u>21,825</u>	<u>14,649</u>	<u>13,291</u>
Market value of listed investments	19,073	1,814	—	—
Short term investments:				
Listed equity investments in Hong Kong SAR, at market value	421	581	—	—



19. OTHER ASSETS

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Loans to Land Traders Properties and Development Company, Inc. ("Land Traders")	(i)	6,295	6,602
Deposit with The Stock Exchange of Hong Kong Limited		305	305
Admission fees paid to Hong Kong Securities Clearing Company Limited		150	150
Contributions to Hong Kong Securities Clearing Company Limited Guarantee Fund		150	150
		6,900	7,207

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.

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. DEFERRED TAX ASSETS

The movement for the year in the net deferred tax position of the Group is as follows:

	2003	2002
	HK\$'000	HK\$'000
At beginning of year	6,660	—
Adjustment on adoption of SSAP 12 (Revised)	—	8,669
As restated	6,660	8,669
Credit/(charge) to the consolidated profit and loss account	5,284	(2,009)
At end of year	11,944	6,660

The major deferred tax assets recognised by the Group are as follows:

	2003	2002
	HK\$'000	HK\$'000
Depreciation in excess of depreciation allowances	454	383
Tax losses	11,288	6,277
Others	202	—
	11,944	6,660

At the balance sheet date, the Group has unused tax losses of HK\$339,402,000 (2002: HK\$308,025,000) available for offset against future profit. A deferred tax asset has been recognised in respect of HK\$52,186,000 (2002: HK\$39,232,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$287,216,000 (2002: HK\$268,793,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.



At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was HK\$13,013,000 (2002: HK\$9,385,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

22. 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 (“MVM”) 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 37 to the financial statements.

23. PROPERTIES HELD FOR SALE

The carrying amount of properties held for sale and stated at realisable value amounted to HK\$600,000 (2002: HK\$1,000,000).

24. 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	
	2003	2002
	HK\$'000	HK\$'000
Current	13,956	13,688
1 - 3 months	10,144	1,413
Over 3 months	1,563	1,666
	25,663	16,767



25. OTHER RECEIVABLES

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest-bearing					
loan receivable	(i)	8,000	8,000	—	—
Deposits		20,201	16,427	20	20
Sundry debtors					
and prepayments		7,460	13,383	397	381
		<u>35,661</u>	<u>37,810</u>	<u>417</u>	<u>401</u>

Note:

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

26. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$18,371,000 (2002: HK\$26,569,000). An aging analysis of trade payables as at the balance sheet date is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	16,774	25,428
1 - 3 months	1,245	375
Over 3 months	352	766
	<u>18,371</u>	<u>26,569</u>



27. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	12,743	12,220	5,849	2,224
Bank loans, secured	125,000	168,695	125,000	155,000
	137,743	180,915	130,849	157,224
Bank loans and overdrafts repayable:				
Within one year	137,743	165,915	130,849	142,224
In the second year	—	15,000	—	15,000
	137,743	180,915	130,849	157,224
Portion classified as current liabilities	(137,743)	(165,915)	(130,849)	(142,224)
Long term portion	—	15,000	—	15,000

The bank loans and overdrafts are secured by certain property, plant and equipment and the investment properties of the Group (notes 13 and 14).

28. NON-INTEREST-BEARING OTHER BORROWINGS

The non-interest-bearing other borrowings represent short term loans of HK\$16,710,000 (2002: HK\$16,710,000) granted by the minority shareholders of subsidiaries which are unsecured, interest-free and have no fixed terms of repayment.

29. MINORITY INTERESTS

Included in the minority interests is a loan payable balance to a minority shareholder of HK\$9,503,000 (2002: HK\$6,966,000) which is unsecured, interest-free and has no fixed terms of repayment.



30. SHARE CAPITAL

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Shares		
Authorised:		
5,000,000,000 ordinary shares of HK\$0.20 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,414,547,555 ordinary shares of HK\$0.20 each	<u>482,910</u>	<u>482,910</u>
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.



31. 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 33 of the financial statements.

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	<u>(16,996)</u>	<u>—</u>
Net amount: At 31st December, 2003	<u>242</u>	<u>(164)</u>



(b) Company

	Share premium account <i>HK\$'000</i>	Subscription rights reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002	3,423	2,905	(235,850)	(229,522)
Net loss for the year	—	—	(7,565)	(7,565)
At 31st December, 2002 and at beginning of year	3,423	2,905	(243,415)	(237,087)
Net loss for the year	—	—	(85,864)	(85,864)
At 31st December, 2003	3,423	2,905	(329,279)	(322,951)

32. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	43,254	35,254
Loans to subsidiaries	260,000	260,000
Provisions for impairment	(233,000)	295,254 (153,902)
	70,254	141,352

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 and due to subsidiaries, included in the Company's current assets and liabilities, amounting to HK\$53,610,000 (2002: HK\$27,098,000) and HK\$106,060,000 (2002: HK\$135,841,000) respectively are interest bearing 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.

Details of the principal subsidiaries as at 31st December, 2003 were as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
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
Jubilation Properties Limited	British Virgin Islands/ People's Republic of China	US\$50,000	—	55	Ordinary	Property development

Notes to Financial Statements

31st December, 2003



Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
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	97	—	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

Notes to Financial Statements

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Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Investment Management Limited	Hong Kong SAR	HK\$5,000,000	—	97	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	—	97	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

Notes to Financial Statements

31st December, 2003



Name of company	Place of incorporation/ registration/ and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Morning Star Traveller Plus Limited	Hong Kong SAR	HK\$2	—	100	Ordinary	Provision of travel-related services
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



Name of company	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Class of shares held	Principal activities
			Direct	Indirect		
Vista International Hotels Pty. Limited*	Australia	A\$2	—	100	Ordinary	Hotel management
Zhongshan Morning Star Villa Housing and Real Estate Development Limited	People's Republic of China	US\$4,600,000	—	52.3	Registered capital	Property development
Zhongshan Morning Star Villa Club Co., Ltd.	People's Republic of China	US\$1,400,000	—	49.5	Registered capital	Operation of the clubhouse in Morning Star Villa
Zhongshan Morning Star Plaza Housing and Real Estate Development Limited	People's Republic of China	US\$2,100,000	—	52.3	Registered capital	Property development

* Not audited by RSM Nelson Wheeler or other RSM International member firms.

The above table lists the subsidiaries of the Company as at 31st December, 2003 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.



33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

	2003	2002
	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)
	<u>—</u>	<u>(295)</u>
Gain on disposal of a subsidiary (<i>note 5</i>)	—	295
	<u>—</u>	<u>—</u>

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:

	2003	2002
	HK\$'000	HK\$'000
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>—</u>	<u>(1)</u>



(b) Major non-cash transactions

(i) 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\$1,358,000 (2002: HK\$1,235,000), was satisfied by the issue of 10% convertible cumulative preferred stocks of the investee company.

(ii) Set off a debtor balance

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

(iii) Acquisition of an associate

Last 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.

(c) Restricted cash and cash equivalent balances

Cash and cash equivalents at end of the year include deposits with banks of HK\$15,813,000 (2002: HK\$26,968,000) held by subsidiaries which are not freely remissible to the Company because of currency exchange restrictions.

34. 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, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	107	319
In the second to fifth years, inclusive	—	107
	<u>107</u>	<u>426</u>

(b) As lessee

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

At 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	6,637	7,707
In the second to fifth years, inclusive	1,965	3,675
	<u>8,602</u>	<u>11,382</u>



35. CAPITAL COMMITMENTS

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contracted for:		
Land and construction costs	13,766	13,235
Authorised, but not contracted for:		
Land and construction costs	<u>167,534</u>	<u>173,280</u>
	<u>181,300</u>	<u>186,515</u>

The above amount of HK\$181,300,000 (2002: HK\$186,515,000) relates to the development of the Group's property projects in Zhongshan, the People's Republic of China, into a residential and commercial complex.

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

36. CONTINGENT LIABILITIES

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bank guarantees	296,588	348,974	60,337	95,833
Guarantee of banking facilities granted to a subsidiary	<u>—</u>	<u>—</u>	<u>20,000</u>	<u>—</u>
	<u>296,588</u>	<u>348,974</u>	<u>80,337</u>	<u>95,833</u>

Included in bank guarantees is an amount of HK\$290,412,000 (2002: HK\$341,230,000) (Company — 2003: HK\$60,337,000; 2002: HK\$88,088,000) 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.



37. RELATED PARTY TRANSACTIONS

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

	Notes	2003 HK\$'000	2002 HK\$'000
Rental income from a related company:			
Laura Ashley Limited ("LAL")	(i)	423	184
Architectural consultancy fees paid to:			
Shen & Partners Limited ("Shen & P")	(ii)	1,304	707
SRT Design (China) Limited ("SRT (China)")	(ii)	220	670
SRT Architect Limited ("SRT")	(ii)	62	—
Interest income from MVM	(iii)	73	154
Property management fees paid to MVM	(iv)	379	349
Acquisition of additional shares of			
Morning Star Financial Services Limited ("MSFS")	(v)	<u>8,000</u>	<u>8,684</u>

(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 an office area to LAL for a period of two years, 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 each of SRT (China) and SRT. The fees were charged by reference to the then prevailing market rates.

(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 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 December 2003, the Company acquired a further 8,000,000 ordinary shares of MSFS, a previously 78.35%-owned subsidiary of the Company, representing a 18.64% interest, from Firstway, a substantial shareholder of the Company, at a consideration of HK\$8,000,000. The purchase consideration was determined by reference to the adjusted unaudited consolidated net asset value of MSFS as at 31st October, 2003. Further details of this transaction are set out in the Company's press announcement dated 29th December, 2003.*

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 22 to the financial statements, respectively.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30th March, 2004.