

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I have the pleasure of presenting the Annual Report of the Company and the Group for the year ended 31st December, 2000.

FINANCIAL RESULTS

The consolidated net loss from ordinary activities attributable to shareholders for the financial year ended 31st December, 2000 amounted to HK\$18,046,000 as compared to the loss of HK\$47,401,000 in 1999.

DIVIDEND

The Directors do not recommend the payment of a dividend for the financial year ended 31st December, 2000 (1999: Nil).

REVIEW OF OPERATIONS

Travel and Tourism Division



Beijing Morning Star - New Ark International Travel Service Co., Ltd.

The economy of the Hong Kong SAR posted a strong recovery in 2000 with a GDP growth of 10.5%, being driven mainly by external trade as total exports of goods increased by 17.1%. However, the effect of the economic recovery had not trickled down to the average household as the continued fall in property prices, stagnant wages, high unemployment rate and persisting deflation affected private consumption in 2000. Against such an economic environment, 2000 remained a highly challenging year for the Group's travel arm, Morning Star Travel Service

Limited ("MST"). Competition became more intense in an industry crowded with travel agents, characterised by thin margins and high advertising and promotion expenses.

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During the year, MST focussed on creating superior customer value with the objective of providing its customers with high quality products and customer service. Despite a decrease in total turnover, such strategies had enabled MST to achieve a significant improvement in the overall gross profit margin of its travel products compared with 1999. Additionally, MST's total operating expenses decreased by nearly 30% compared with 1999, reflecting a higher level of cost savings in rental as well as advertising and promotion expenses.



Branches of Morning Star Travel Service Limited



In view of the great potential of the tourism market in the People's Republic of China (the "PRC"), MST successfully obtained approval from the State Tourism Bureau of the PRC to establish the first sino-foreign equity joint venture travel agency in Beijing with the state-owned Beijing Tourism Group. Beijing Morning Star-New Ark International Travel Service Co., Ltd. ("MST (Beijing)") is owned as to 49% by MST and 51% by its PRC partner. This joint venture company was officially launched on 19th September, 2000 and is currently focussing on inbound and domestic travels.

Since MST's launch of its travel website www.morningstar.com.hk in February 2000, it has recorded a continued increase in the number of daily page views. MST is currently upgrading its IT infrastructure to cater for on-line bookings and settlement which are expected to be available during the second quarter in 2001.

The Group's acquisition of a 23.6% interest in Zhaodaola Limited ("Zhaodaola") in June 2000 has provided it with a good opportunity to participate in the fast growing Internet technology industry in the PRC. Zhaodaola is a PRC-focussed Internet company centred around a lifestyle theme for Chinese users.

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Property Division



Morning Star Villa, Zhongshan

Presently, about 90% of the units of Phase VI of Morning Star Villa ("MSV") in Zhongshan, the PRC, in which the Group has a 55% interest, have been sold. Following the success of Phases I to VI of MSV, the pre-sale of Phase VII, Canale DiVenezia, was launched in February 2000 resulting in sales to-date of about 40%.

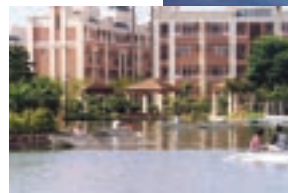


Morning Star Plaza, Zhongshan

The Group's objective of providing good master planning, quality building materials, beautiful landscaping and good estate management has contributed to the success of MSV which won the national award of "Model for the Most Outstanding Residential Estate for Management". MSV was also presented with the award of "Most Outstanding Estate for Management" by Zhongshan City and the award of "Most Outstanding Residential Estate for Management" by the Government of Guangdong Province.



Morning Star Villa, Zhongshan



To capitalise on the established reputation of MSV and in view of the strong potential of the domestic property market in the PRC, the Group participated in a second property project, Morning Star Plaza ("MSP"), in Zhongshan, the PRC. The Group has a 55% interest in MSP which is targetted towards domestic buyers in the PRC. The Eastern site of MSP comprises of twenty 7-storey towers and five



Morning Star Villa, Zhongshan



Morning Star Villa, Zhongshan

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12-storey towers. The construction of eighteen 7-storey towers and one 12-storey tower has been successfully completed whilst the construction of the remaining two 7-storey towers and four 12-storey towers is scheduled to be completed by September 2001. To-date, about 70% of the commercial and residential units of the completed towers at the Eastern site of MSP have been sold.

Hotel Division



Grosvenor Vista Hotel, Adelaide

Morning Star Holdings (Australia) Limited ("MSA"), an Australian subsidiary in which the Group has a 69.5% interest, recorded a loss after tax of A\$127,000 (approximately HK\$556,000) for the year ended 31st December, 2000 (1999: a profit of A\$203,000 (approximately HK\$1,032,000)).

In addition to the Grosvenor Vista in Adelaide and the Alice Springs Vista in Alice Springs, which are owned by MSA in Australia, the Group currently manages another four hotels in Malaysia and Australia, namely the MingCourt Vista in Kuala Lumpur, the Sydney Vista in Sydney and the Hobart Vista and the Hobart Pacific in Tasmania. Grosvenor Vista started a major refurbishment programme in the last quarter of 2000, which will be completed by the middle of this year. MingCourt Vista has also completed a multi-million refurbishment programme in upgrading all of its rooms during the second half of 2000.



Alice Springs Vista Hotel, Alice Springs

Financial Services Division



A roadshow held in Zhongshan

To diversify the businesses of the Group from the core travel-related operations and property development, the Group acquired a controlling stake in Kerry Financial Services Limited ("KFSL") to broaden its revenue stream particularly on a fee-based income. The acquisition was completed in December 2000 and KFSL was subsequently renamed Morning Star Financial Services Limited ("MSFS"). The MSFS Group is engaged in securities broking, the provision of investment advisory services as well as nominee services. For the financial year ended 31st December, 2000, the MSFS Group recorded a profit before tax of HK\$31,700,000.

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OUTLOOK

As Hong Kong SAR is an open economy, a global recession or significant slowdown will affect its economic performance. The key to sustainable growth will depend internally, on the revival of domestic consumption by an increase in peoples' disposable income. Externally, the benefits from stable global markets and the state of the economy of the PRC and its expected strong economic performance will play a major part.

The risk of an anticipated global recession or further slowdown will certainly dampen Hong Kong SAR's immediate outlook. Whilst the anticipated slower US economic growth would have a negative impact on the economy of Hong Kong SAR, the reductions in interest rates which began in early 2001 would negate some of the impact by boosting consumer spending and stabilizing the stagnating property market. Additionally, China's entry to WTO and its decision to develop Western China will expand the already enormous China market, opening up further business opportunities for the Hong Kong SAR.

Assuming that the global markets remain fairly stable and do not slide to a global recession, the Government of Hong Kong SAR has forecast a moderate growth of 4% for the economy. Against this backdrop, MST will continue to focus on its human resource development and training programmes, customer service, product development, upgrading of IT technologies and cost control. MST will also adopt a prudent advertising and branch expansion programme in 2001. With the establishment of MST (Beijing), the Group is well positioned to take an active role in the growing tourism market in the PRC, especially after its inclusion to the WTO.

The rising standards and falling prices of Internet technologies are expected to contribute significantly to the development of Internet in the long-run. In addition to Zhaodaola, the Group will continue to look for investment opportunities which will provide synergy to the Group's existing travel and other businesses.

Whilst the current subdued consumer sentiment is expected to prevail, the Group intends to capitalise on the success of Phases I to VI of MSV. In 2001, the Group will continue to develop further phases of MSV targeting at Hong Kong buyers and MSP in respect of domestic PRC buyers. The Group will also continue to evaluate other suitable property projects in the PRC.

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In addition to the existing portfolio of hotels in Malaysia and Australia under the Group's management, MSA will explore new investment opportunities.

As Hong Kong SAR is one of the most important financial hubs in the Asia-Pacific region, it is envisaged that the local financial services industry will enjoy stable growth. The Group intends to expand the client base of MSFS Group by capitalising on its business connections and networking in both the local and other Asian markets to widen its revenue base.

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 their continued support.

DR. KHOO KAY PENG

Chairman

Hong Kong, 23rd March, 2001