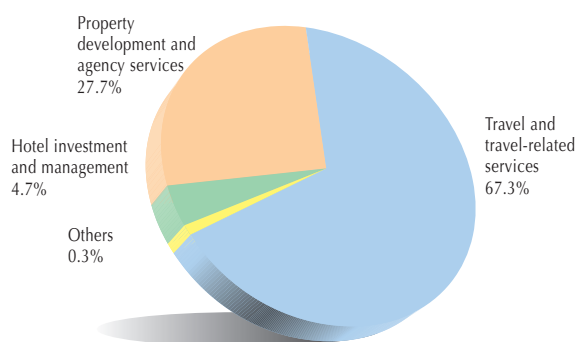


## MANAGEMENT DISCUSSION AND ANALYSIS

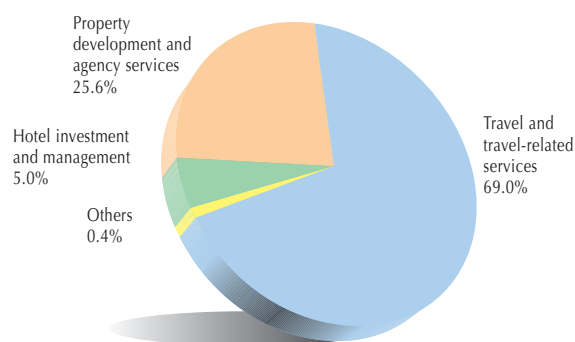
### FINANCIAL HIGHLIGHTS

	2000		1999	
	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>
By activity:				
Travel and travel-related services	519,521	(5,399)	599,402	(29,639)
Property development and agency services	213,788	44,247	222,789	36,164
Hotel investment and management	35,998	(400)	43,763	(2,752)
Others	2,120	(16,013)	3,213	(17,962)
<b>Total</b>	<b>771,427</b>	<b>22,435</b>	<b>869,167</b>	<b>(14,189)</b>

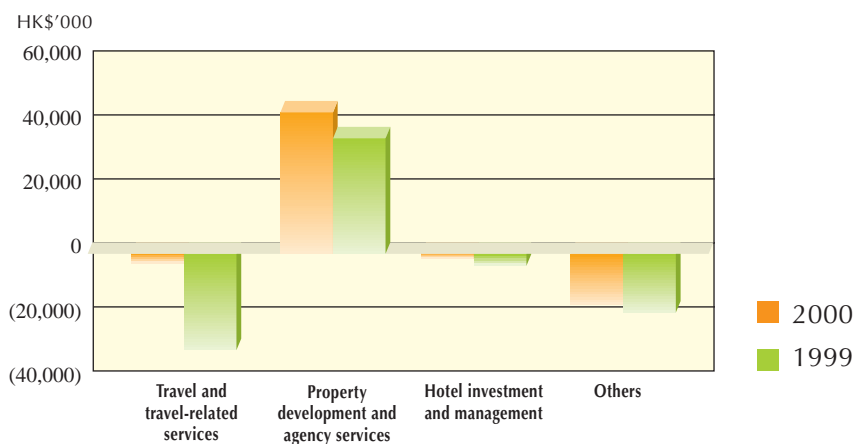
#### TURNOVER BY ACTIVITY - 2000



#### TURNOVER BY ACTIVITY - 1999



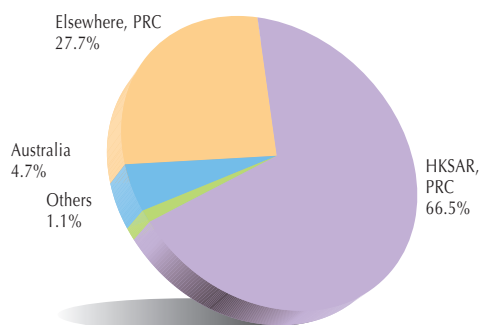
#### CONTRIBUTION BY ACTIVITY



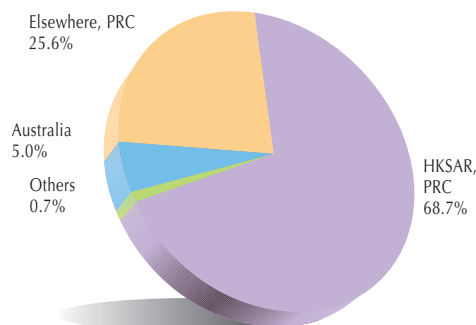
## MANAGEMENT DISCUSSION AND ANALYSIS

	2000		1999	
	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>
By geographical location:				
People's Republic of China:				
Hong Kong SAR	<b>513,303</b>	<b>(22,686)</b>	596,565	(46,063)
Elsewhere	<b>213,788</b>	<b>44,817</b>	222,789	34,443
Australia	<b>35,900</b>	<b>773</b>	43,763	3,051
Others	<b>8,436</b>	<b>(469)</b>	6,050	(5,620)
<b>Total</b>	<b><u>771,427</u></b>	<b><u>22,435</u></b>	<b><u>869,167</u></b>	<b><u>(14,189)</u></b>

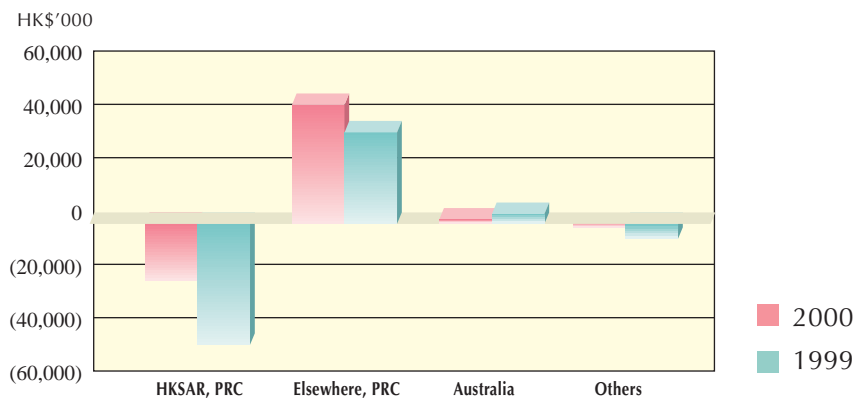
**TURNOVER BY GEOGRAPHICAL LOCATION - 2000**



**TURNOVER BY GEOGRAPHICAL LOCATION - 1999**



**CONTRIBUTION BY GEOGRAPHICAL LOCATION**



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF FINANCIAL RESULTS

For the year ended 31st December, 2000, the Group's consolidated turnover amounted to HK\$771,427,000 representing a decrease of 11.2% as compared to HK\$869,167,000 for 1999. The Group's consolidated contribution from operating activities amounted to a profit of HK\$22,435,000 as compared to a loss of HK\$14,189,000 for 1999. The improvement of HK\$36,624,000 was primarily due to better gross profit margins and significantly reduced operating expenses particularly in respect of the Group's travel and travel-related services.

The turnover for the property division for the year ended 31st December, 2000 amounted to HK\$213,788,000 as compared to HK\$222,789,000 for 1999. The earnings contribution amounted to HK\$44,247,000 for 2000 as compared to HK\$36,164,000 for 1999. During the year, the construction of Part II of Phase VI of Morning Star Villa ("MSV") was completed on schedule and delivery of the housing units took place during June 2000. The construction of Parts I and II of Phase VII of MSV had commenced and will be completed on schedule in June 2001. Besides, the first eighteen 7-storey towers and one 12-storey tower on the Eastern site of Morning Star Plaza ("MSP") were completed in 2000. The remaining two 7-storey towers and four 12-storey towers on the Eastern site of MSP are scheduled to be completed by September 2001.

The turnover for the hotel investment and management business for the year ended 31st December, 2000 amounted to HK\$35,998,000, representing a decrease of 18% compared to HK\$43,763,000 for 1999 as Grosvenor Vista Hotel in Adelaide started a major refurbishment programme during the last quarter of the year.

The turnover for other operations for the year ended 31st December, 2000, representing rental income received by the Group, amounted to HK\$2,120,000 for 2000 as compared to HK\$3,213,000 for 1999. The decrease was due to the renewal of some tenancy agreements at substantially lower rental during the year.

In respect of geographical analysis, the turnover for Hong Kong SAR related mainly to the travel and travel-related services. The turnover from elsewhere of the People's Republic of China (the "PRC") related mainly to property development and agency services. The turnover for Australia was in respect of hotel investment and management services. Others were in relation to certain travel and travel-related services conducted outside of Hong Kong SAR.

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF CONSOLIDATED BALANCE SHEET

The non-current assets as at 31st December, 2000 amounted to HK\$339,043,000 which is comparable to HK\$346,822,000 in 1999. The current assets as at 31st December, 2000 amounted to HK\$422,611,000, an increase of HK\$116,830,000 or 38%, as compared to HK\$305,781,000 in 1999. The increase was contributed mainly by a newly acquired subsidiary which had a cash and cash equivalents balance amounting to HK\$54,975,000. Besides, properties under development held for sale increased by HK\$30,692,000 with the completion of Part II of Phase VI of MSV in 2000.

The current liabilities as at 31st December, 2000 amounted to HK\$368,667,000, an increase HK\$34,409,000 or 10%, as compared to HK\$334,258,000 in 1999.

### STAFF ANALYSIS

The total number of staff employed by the Group as at balance sheet date was 607, which is comparable to 596 in 1999. The Group ensures that the remuneration levels of its employees are competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Currently, the Group does not have any share option scheme for employees. The Group has implemented a Total Quality Management programme as part of its overall human resource training and development programme to enhance the technical and service skills of its employees.

### LIQUIDITY AND FINANCIAL RESOURCES

As at the balance sheet date, the Group's total borrowings was HK\$163,594,000 comprising mainly short-term bank borrowings with interest rates ranging from 8.3% to 10.5% per annum. It is expected that substantial savings in interest expense will be made as a result of interest rate reductions which started in January 2001. The Group's available banking facilities not utilised as at the balance sheet date totalled HK\$112,161,000.

The Group had capital commitment totalling HK\$191,563,000 as at the balance sheet date. The capital commitment related mainly to the Group's property projects in Zhongshan, PRC. It will be satisfied by funds generated from the sale of properties and from the Group's available cash and bank balances.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL STRUCTURE

In order to achieve better control of treasury operations, the Group has centralised 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 one of the Group's major subsidiary, MST, in respect of settlement of tour costs incurred in Japan. The Group managed its Japanese yen exposure by way of forward exchange contracts with its principal bankers.

### GEARING RATIO

The Group's total current and long-term debts as at the balance sheet date was HK\$163,594,000, as compared to HK\$162,637,000 in 1999. The Group's total equity as at the balance sheet date was HK\$286,033,000, as compared to HK\$238,229,000 in 1999.

The Group's gearing ratio as at the balance sheet date was 0.57, as compared to 0.68 for 1999. The gearing ratio was based on the total current and long-term debts over the total equity of the Group. The improvement in the Group's gearing ratio was due to the net proceeds of approximately HK\$90,200,000 from the rights issue during the year.

### NEW BUSINESS AND MATERIAL ACQUISITION

During the year, the Group, by way of a rights issue, raised approximately HK\$90,200,000 after expenses, which has been utilised for the following purposes:

- (i) approximately HK\$23,400,000 to acquire a 23.6% equity interest in Zhaodaola Limited ("Zhaodaola"). Zhaodaola is a PRC-focussed Internet company centred on a lifestyle theme for Chinese users under the domain names, "www.zhaodaola.com" and "www.zhaodaola.com.cn";
- (ii) approximately HK\$2,300,000 has been invested in Beijing Morning Star - New Ark International Travel Service Co., Ltd. ("MST (Beijing)"). MST (Beijing) was officially launched on 19th September, 2000 and is currently focussing on inbound and domestic travels;
- (iii) approximately HK\$30,000,000 to reduce the Group's bank borrowings; and
- (iv) approximately HK\$31,800,000 for general working capital purposes.

As at the balance sheet date, the balance of the proceeds of approximately HK\$2,700,000 remained as bank deposits of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

To diversify the businesses of the Group from the core travel-related operations and to broaden its revenue stream to include a fee-based income, the Group acquired approximately 54.8% interest in Kerry Financial Services Limited which was renamed Morning Star Financial Services Limited (“MSFS”). MSFS and its subsidiaries are mainly engaged in securities broking, provision of investment advisory services and nominee services. Subsequent to the balance sheet date, on 12th March, 2001, the Group entered into agreements with the minority shareholders of MSFS to acquire a total of approximately 7% interest in MSFS for a total cash consideration of HK\$3,180,000. The Group will hold approximately 61.8% interest in MSFS after completion of these acquisitions.

### CHARGES ON GROUP ASSETS

As at the balance sheet date, certain assets of the Group with an aggregate carrying value of HK\$246,092,000 were pledged to certain banks to secure banking facilities granted to the Group. In addition, non-current bank balances and time deposits amounting to HK\$24,685,000 were pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties of MSV and MSP.