

## REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31st December, 2000.

### PRINCIPAL ACTIVITIES

The principal activities of the Company have not changed during the year and consisted of investment holding and the provision of management services. The subsidiaries are mainly engaged in travel and travel-related services, property development, property agency services, hotel investment and hotel management. The principal activities of the subsidiaries have not changed during the year. On 30th December, 2000, the Group acquired a majority equity interest in Kerry Financial Services Limited, which was subsequently renamed Morning Star Financial Services Limited ("MSFS"). MSFS and its subsidiaries are engaged in the provision of financial services and securities broking.

An analysis of the Group's turnover and contribution to the profit/(loss) from operating activities by principal activity and geographical area of operations for the year ended 31st December, 2000 is as follows:

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

## **REPORT OF THE DIRECTORS**

### **RESULTS AND DIVIDENDS**

The Group's loss for the year ended 31st December, 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 69.

No dividend has been declared in respect of the year.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 73.

### **FIXED ASSETS AND INVESTMENT PROPERTIES**

Details of movements in the fixed assets and investment properties of the Company and the Group during the year are set out in notes 11 and 12 to the financial statements, respectively.

### **SUBSIDIARIES**

Details of the Company's principal subsidiaries are set out in note 31 to the financial statements.

### **ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES**

Particulars of the Group's interests in its principal associates and jointly-controlled entities are set out in notes 14 and 15 to the financial statements, respectively.

### **BORROWINGS**

Details of the Company's and the Group's borrowings at the balance sheet date are set out in notes 24, 26 and 27 to the financial statements.

### **SHARE CAPITAL AND WARRANTS**

Details of the Company's share capital and warrants are set out in note 29 to the financial statements.

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### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements.

At 31st December, 2000, the amount of the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (1998 Revision) of the Cayman Islands, amounted to HK\$10,085,000.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30%.

No Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any beneficial interest in the suppliers or customers referred to above.

### DIRECTORS

The Directors of the Company during the year were:

#### Executive Directors:

CHEANG Yoon Hoong  
LO Kin Luen, Henry (resigned on 9th May, 2000)

#### Non-Executive Directors:

Dr. KHOO Kay Peng  
KHET Kok Yin  
LOY Yet King (appointed on 5th May, 2000)

#### Independent Non-Executive Directors:

Edward SHEN  
WONG Kim Ling

In accordance with the Company's articles of association, Mr. Edward SHEN retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

## **REPORT OF THE DIRECTORS**

### **DIRECTORS' SERVICE CONTRACTS**

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

Mr. Edward SHEN is a director of, and has a beneficial interest in each of Shen & Partners Limited and SRT Design (China) Limited, which provide architectural design services to the Group and have (in the opinion of the Directors) received normal professional fees from the Group for such services rendered during the year.

The above transactions are also classified as related party transactions of the Group and are further detailed in note 36 to the financial statements.

Save as disclosed above and in note 36 to the financial statements, no Director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than such interests as the Directors have in the warrants of the Company which are disclosed in the section on Directors' interests in share capital and warrants.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARE CAPITAL AND WARRANTS

At the balance sheet date, the interests of the Directors in the share capital and warrants of the Company and its associated corporations as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which are required to be disclosed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were as follows:

#### (i) The Company

##### (1) Shares

Name of Director	Number of shares held		Total
	Personal interests	Corporate interests	
Dr. KHOO Kay Peng	—	934,755,994	934,755,994
		<i>Note (a)</i>	
CHEANG Yoon Hoong	11,382,000	—	11,382,000
KHET Kok Yin	3,890,000	—	3,890,000
LOY Yet King	19,450,000	—	19,450,000

##### (2) Warrants

Name of Director	Number of units of warrants held		Total
	Personal interests	Corporate interests	
Dr. KHOO Kay Peng	—	190,680,818	190,680,818
		<i>Note (a)</i>	
CHEANG Yoon Hoong	2,276,400	—	2,276,400
KHET Kok Yin	2,334,000	—	2,334,000
LOY Yet King	11,670,000	—	11,670,000

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### (ii) Associated corporations

	Name of Director	Nature of interests	Number of shares held
(1) Firstway International Investment Limited (“Firstway”)	Dr. KHOO Kay Peng	Corporate <i>Note (b)</i>	14,000,000 ordinary shares of HK\$1 each
(2) Morning Star Financial Services Limited (“MSFS”) (formerly Kerry Financial Services Limited)	Dr. KHOO Kay Peng	Corporate <i>Note (a)</i>	16,385,000 ordinary shares of HK\$1 each

At the balance sheet date, certain Directors also held qualifying shares in some subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

Notes:

- (a) *The shares and warrants were held by various companies controlled by Dr. KHOO Kay Peng, of which 559,755,994 shares issued by the Company and 16,385,000 shares issued by MSFS were held by Firstway in which each of Norcross Limited (“Norcross”) and Cherubim Investment (HK) Limited (“Cherubim”) has a 35% interest in the voting share capital, and the balance of 375,000,000 shares and 190,680,818 units of warrants issued by the Company were held by Bonham Industries Limited.*
- (b) *The shares were held by Norcross and Cherubim, companies controlled by Dr. KHOO Kay Peng.*

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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### DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

Name	Age	Position held	Number of years of service	Business experience
Dr. KHOO Kay Peng	62	Chairman	7	Dr. KHOO is the chairman of Firstway International Investment Limited, which is the controlling shareholder of the Group. He is an entrepreneur/ industrialist from Malaysia with business interests in various enterprises. He is a director of South China Morning Post (Holdings) Limited and United Chinese Bank Limited, Hong Kong. He is also the chairman and chief executive of Malayan United Industries Berhad (“MUI”).
CHEANG Yoon Hoong	51	Managing Director	4 <sup>1</sup> / <sub>2</sub>	Mr. CHEANG is an accountant by profession and is a director of a number of subsidiaries of MUI. He has more than twenty years’ experience in accounting and finance, banking and corporate services.
KHET Kok Yin	54	Director	4 <sup>1</sup> / <sub>2</sub>	Mr. KHET has more than twenty years’ experience in the financial and banking fields. Mr KHET is a director on the boards of numerous companies in The MUI Group. He is currently the managing director of Pan Malaysian Industries Berhad, Pan Malaysia Capital Berhad, Pan Malaysia Corporation Berhad, Pan Malaysia Holdings Berhad and Metrojaya Berhad and also heads the Financial Services Division as well as the Management Services Division of The MUI Group.

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Name	Age	Position held	Number of years of service	Business experience
LOY Yet King	54	Director	1	Mr. LOY has many years of experience in both the food and hospitality industries as well as in real estate. He is currently the chief executive officer of Regal Hotel Group Plc., United Kingdom. Mr. LOY also sits on the boards of directors of several publicly listed companies in Malaysia, Singapore, Australia and India.
Edward SHEN	50	Director	8	Mr. SHEN has more than twenty-five years' experience in the architectural and property development fields.
WONG Kim Ling	64	Director	2	Mr. WONG has more than thirty years' experience in the financial and banking fields, with thirteen years as the chief executive officer with a Malaysian bank in Hong Kong. He was also an executive director of a property company, which is a listed company in Hong Kong, for three years.

## SUBSTANTIAL SHAREHOLDERS

At the balance sheet date, the interests of persons, other than the Directors, owning 10% or more of the share capital of the Company as recorded in the register required to be kept under Section 16 of the SDI Ordinance were as follows:

Name	Number of shares held
Norcross Limited — <i>Note (a)</i>	559,755,994
Cherubim Investment (HK) Limited — <i>Note (a)</i>	559,755,994
Firstway International Investment Limited (“Firstway”) — <i>Note (b)</i>	559,755,994
Bonham Industries Limited (“Bonham”) — <i>Note (b)</i>	375,000,000



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Notes:

- (a) *The interests of these companies in the shares of the Company are included in the interests held by Firstway.*
- (b) *The aggregate of the interests of Firstway and Bonham in the shares of the Company has also been disclosed by Dr. KHOO Kay Peng under “Directors’ interests in share capital and warrants” above.*

### SIGNIFICANT CONNECTED TRANSACTIONS

Subsequent to the balance sheet date, on 12th March, 2001, the Company entered into the conditional sale and purchase agreements as set out below with Mr Jeremy Lechemere KING (“JK”), Knight Holdings (HK) Limited (“KH”) and Knight Partners Limited (“KP”) for its acquisition of a total of 3,000,000 shares in Morning Star Financial Services Limited (“MSFS”) (formerly Kerry Financial Services Limited) for a cash consideration of a total of HK\$3,180,000:

<b>The Agreements</b>	<b>Signing Parties</b>	<b>Contents</b>
(1) Sale and purchase Agreement dated 12th March, 2001 (the “1st Agreement”)	the Company as the purchaser and JK, KH and KP as the vendors	(a) acquisition of 500,000 shares in MSFS from JK for HK\$530,000  (b) Acquisition of 1,000,000 shares in MSFS from KH for HK\$1,060,000  (c) acquisition of 400,000 shares in MSFS from KP for HK\$424,000
(2) Sale and Purchase Agreement dated 12th March, 2001 (the “2nd Agreement”)	the Company as the purchaser and KP as the vendor	acquisition of 1,100,000 shares in MSFS from KP for HK\$1,166,000

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The 1,900,000 shares in MSFS, being the subject of the 1st Agreement, were pledged in favour of certain financial institutions by JK, KH and KP as security for monies owed by KH and related companies. As a precedent condition for the completion of the transactions contemplated under the 1st Agreement, JK, KH and KP are required to obtain from each of the said financial institutions their consent to the transactions and the requisite undertaking to deliver the documents of title to the shares in MSFS to be sold by JK, KH and KP within one calendar month from the date of the 1st Agreement.

In respect of the 1,100,000 shares in MSFS which are to be sold to the Company from KP pursuant to the 2nd Agreement, these shares are the subject matter of a legal case between KP and a financial institution. As a precedent condition for the completion of the above transaction, KP is required to obtain from the said financial institution its consent to the transaction and the requisite undertaking to deliver the documents of title to the 1,100,000 shares in MSFS to be sold by KP within one year from the date of the 2nd Agreement.

Prior to the completion of the transactions contemplated under the 1st and 2nd Agreements, MSFS is owned as to approximately 54.8% by the Company, 38.2% by Firstway International Investment Limited ("Firstway"), 1.2% by JK, 2.3% by KH and 3.5% by KP. The MSFS group is engaged in investment holding, securities broking, provision of investment advisory services and nominee services. The Directors of the Company believe that the proposed acquisitions will enable the Company to further strengthen its control over MSFS and the spirit of co-operation between the Company and Firstway and will ensure a smooth operation of the business of MSFS which will be in the best interests of the Group, including the MSFS Group. The Directors also consider that the 1st and 2nd Agreements are on normal commercial terms which are fair and reasonable.

As Firstway, being the controlling shareholder holding approximately 40.6% interest in the issued shares of the Company, is a company controlled by Dr. KHOO Kay Peng ("Dr KHOO"), the Non-Executive Chairman of the Company, it is an associate of Dr. KHOO as defined in the Listing Rules. By virtue of the controlling shareholding interest of Firstway, being approximately 38.2%, in MSFS, the transactions contemplated under the 1st and 2nd Agreements constituted connected transactions for the Company. A press notice containing details of the aforesaid transactions was duly released on 13th March, 2001 in compliance with the provisions of the Listing Rules in connection with connected transactions.

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### PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### CAPITAL RESOURCES

During the year 2000, the Group, by way of a rights issue, raised approximately HK\$90,200,000 after share issue expenses, which have been utilised for the following purposes:

- (i) approximately HK\$23,400,000 has been used to acquire a 23.6% equity interest in Zhaodaola Limited;
- (ii) approximately HK\$2,300,000 has been invested in Beijing Morning Star – New Ark International Travel Service Co., Ltd. (“MST (Beijing)”);
- (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 and will be invested in MST (Beijing) in the foreseeable future.

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### PENSION SCHEME

Particulars of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

### CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 (the "Code") of the Listing Rules of the Stock Exchange throughout the accounting period covered by the annual report, except that the Independent Non-Executive Directors of the Company are not appointed for specific terms, as they are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the articles of association of the Company.

An audit committee constituting two Independent Non-Executive Directors and a Non-Executive Director has been established in compliance with paragraph 14 of the Code.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 35 to the financial statements.

### AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**CHEANG YOON HOONG**

*Managing Director*

Hong Kong, 23rd March, 2001