

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, 2001.

FINANCIAL RESULTS

The Group achieved a pre-tax profit of HK\$17,023,000 before accounting for impairment of assets and revaluation deficit of investment properties for the financial year ended 31st December, 2001 against a pre-tax profit of HK\$5,802,000 for the preceding financial year. However, after providing for impairment of assets and revaluation deficit of investment properties totalling HK\$123,194,000, the consolidated net loss attributable to shareholders amounted to HK\$125,234,000 as compared to the loss of HK\$18,046,000 in 2000.

DIVIDEND

The Directors do not recommend the payment of a dividend for the financial year ended 31st December, 2001 (2000: Nil).

RIGHTS ISSUE OF NEW SHARES WITH BONUS SHARES

On 30th October, 2001, a rights issue (the "Rights Issue") on the basis of three Rights Shares for every ten existing shares held at an issue price of HK\$0.20 per Rights Share was completed and a total of 413,922,438 new shares (the "Rights Shares") were issued. The total proceeds from the issue of the Rights Shares after share issue expenses amounted to approximately HK\$80 million which had been utilised towards part payment for the acquisition of a 40% equity interest in Plaza on Hyde Park Limited ("POHP"), a company incorporated in the United Kingdom. The principal asset of POHP is the Plaza on Hyde Park Hotel located at Lancaster Gate, London W2 3LG, United Kingdom.

Pursuant to the Rights Issue, the Company also completed an issue of 620,883,657 bonus shares (the "Bonus Shares") on the basis of three Bonus Shares for every two fully paid Rights Shares. The Bonus Shares were credited as fully paid by way of capitalisation of an amount equal to the aggregate nominal value of the Bonus Shares issued from the share premium account of the Company.

Chairman's Statement

REVIEW OF OPERATIONS

Travel and Tourism Division

website: www.morningstar.com.hk



A branch of MST

Being an open economy, Hong Kong SAR was inevitably affected by the economic slowdown in the major economies of the world, including the United States of America ("USA"), the European Union ("EU") and Japan in 2001. The situation had worsened following the September 11th incident in the USA, which subsequently resulted in a global economic downturn. Under such difficult trading conditions, the economy of the Hong Kong SAR underwent a downward adjustment in 2001 with a GDP growth of only 0.1% which

was significantly lower than the 10.5% growth in 2000. Deflation remained persistent, with the composite consumer price index falling by 1.6% last year. Unemployment rate increased to 6.8% in February 2002, its highest since the 1980s and is expected to increase further especially when school leavers enter the job market by the middle of 2002. The property and stock markets remained subdued with low activities in 2001. There are also signs of more corporate collapses, downsizing, layoffs and pay reductions which may further dampen consumption sentiment.

Under such an operating environment, 2001 was a difficult but nevertheless a very challenging year for Morning Star Travel Service Limited ("MST"). To weather through the difficult business environment in 2001, MST, a wholly-owned subsidiary of the Company which specialises in outbound travels, focussed on stringent cost control. It also pursued efforts in creating superior customer value by providing its customers with high quality travel products and friendly service. To add value to its on-line booking service, as from October 2001, customers who make reservations through MST's website may pay by credit card on-line or upon receipt of the tickets from MST. The response from such efforts was encouraging.

Chairman's Statement

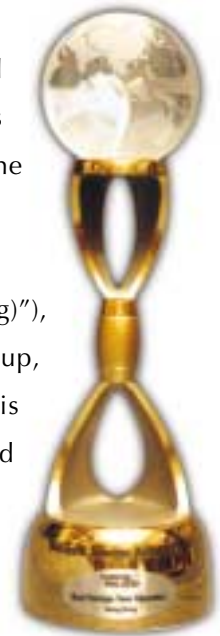


A roadshow held at Plaza Hollywood

MST successfully turned around in 2001 with an improvement in operating results by about HK\$14,000,000. Compared with 2000, MST recorded a moderate increase in total turnover as well as in the number of customers who joined its outbound package tours in 2001. Its average gross profit ratio improved marginally whilst its total operating expenses decreased by nearly 8% compared with last year.

In addition to various top agency awards by major airlines, MST was also honoured with the award of "Best Foreign Tour Operator" by the Ministry of Culture, Arts and Tourism of Malaysia in conjunction with the Tourism Board of Malaysia in June 2001.

Beijing Morning Star - New Ark International Travel Service Co., Ltd. ("MST(Beijing)"), which is 49% owned by MST and 51% by the state-owned Beijing Tourism Group, focussed on international and domestic inbound travels in 2001. MST(Beijing) is well positioned to take an active role in the growing tourism market in mainland China, especially now that China has been included in the World Trade Organisation. The hosting of the 2008 Olympic Games in Beijing is expected to provide further business opportunities for MST(Beijing).



*The award of
"Best Foreign
Tour Operator"*

Property Division

website: www.morningstarvilla.com

Total property sales generated by Morning Star Villa ("MSV") and Morning Star Plaza ("MSP") in Zhongshan, the People's Republic of China, were noticeably lower in year 2001 as homebuyers' confidence had yet to recover from the economic downturn, especially homebuyers from the Hong Kong SAR. This was despite the fact that mortgage financing had become more accessible to homebuyers, with interest rates at historically low levels for both Hong Kong Dollar and Renminbi loans and affordability was at its strongest level ever.

Chairman's Statement



Taking advantage of the difficult market conditions in 2001, the Group successfully negotiated a reduction in land cost totalling more than HK\$10,000,000 for both MSV and MSP in respect of development land acquired in 1997 and 1998. To enhance development returns, greater efforts had been devoted to the Morning

Star brand, which contributed to the marketability and pricing of the properties being sold. Construction costs were being controlled without compromising on quality. As a result of such efforts, despite a lower total turnover, the Property Division was able to maintain a satisfactory profit contribution for the year ended 31st December, 2001.



Phase VII of MSV, Zhongshan

To-date, about 93% of the units of Phases I to VII of MSV have been sold. In respect of Phase VII, Canale DiVenezia, over 65% of the units have been sold. The construction of Parts I and II of Phase VII

was completed and delivered in the second half of 2001 as scheduled. It is expected that the construction of Part III of Phase VII will be completed ahead of schedule by end of March 2002.



Eastern site of MSP, Zhongshan

Chairman's Statement



The national award for best sales to homebuyers outside mainland China

In November 2001, MSV won a national award in Beijing for best sales to homebuyers outside mainland China. In addition to that, MSV was also bestowed with an award in 2001 for being a project with the lowest mortgage loan default rate by the Industrial and Commercial Bank of China.

The construction on the Eastern site of MSP comprising of twenty 7-storey towers and five 12-storey towers was completed as scheduled. To-date, about 75% of the commercial and residential units

built thereon have been sold. To encourage sales of MSP which are targetted at domestic buyers, the Western site of MSP with a total land area of 50 mu will be launched during the second-half of 2002.



Main entrance of MSV, Zhongshan



Clubhouse of MSV, Zhongshan



Phases I and II of MSV, Zhongshan



Phase II of MSV, Zhongshan

Chairman's Statement

Hotel Division

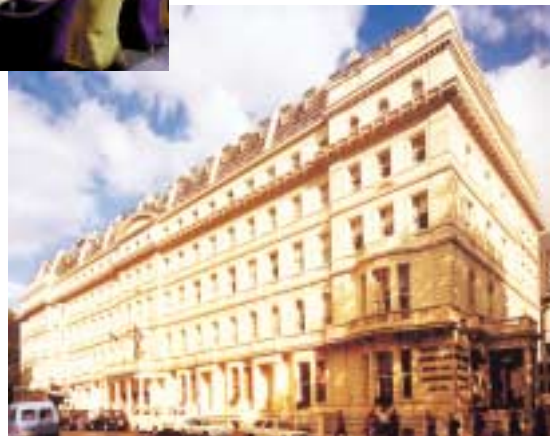


Corus Grosvenor hotel, Adelaide

Morning Star Holdings (Australia) Limited ("MSA"), an Australian subsidiary in which the Group has a 69.5% interest, divested its interest in Alice Springs Vista hotel in July 2001 as the said hotel performed poorly with consecutive losses for the past few years. Currently, MSA owns only the Corus Grosvenor hotel in Adelaide, Australia. For the year ended 31st December, 2001, MSA recorded an unaudited consolidated loss after tax of A\$1,376,000 (approximately HK\$5,516,000) as compared to a loss of A\$127,000 (approximately HK\$556,000) in 2000.

The refurbishment programme of Corus Grosvenor hotel, which started in December 2000, was completed in May 2001. To improve its marketability, this hotel has been rebranded as a "Corus" hotel under the management of Corus & Regal Hotels plc which operates 89 hotels throughout the United Kingdom ("UK"), Australia and Malaysia.

To expand its network of hotel operations into UK, the Group had in October 2001 acquired a 40% interest in Plaza on Hyde Park Limited ("POHP"), a company incorporated in UK. The principal asset of POHP is its interest in the Plaza on Hyde Park Hotel, which is a quality mid-market hotel with 401 guest rooms. The Plaza on Hyde Park Hotel overlooks the renowned Hyde Park and is conveniently situated for business travellers and tourists. Paddington Mainline Station, with its direct connections to Heathrow Airport, and Lancaster Gate Tube Station are just within walking distance from the Plaza on Hyde Park Hotel.



Plaza on Hyde Park Hotel, London

Chairman's Statement

Financial Services Division

For the financial year ended 31st December, 2001, Morning Star Financial Services Limited ("MSFS") and its subsidiaries recorded an audited consolidated profit after tax of HK\$305,000 (2000: HK\$31,640,000). Subsequent to the year-end balance sheet date, on 5th March, 2002, the Company contracted to acquire 8,192,500 shares in MSFS. Upon completion of this transaction, the Company's interest in MSFS will increase to approximately 78.35%.

OUTLOOK

While recent economic indicators suggest that the US economy may be on the path of gradual recovery, the speed or strength of that recovery remains uncertain. Until there are clear signs of recovery in the global economy and in Hong Kong SAR, the Group's revenue from its principal activities in investment holding, travel and travel-related services, property development, hotel management and financial services may remain subdued in 2002. With the view that the USA and EU economies will recover in the foreseeable future and that mainland China will maintain a high economic growth policy, the Government of Hong Kong SAR has forecast a GDP growth of 1% for 2002. In 2002, deflation is expected to remain whilst in the short term, unemployment rate is expected to increase further.

To maintain competitiveness, the Group will continue to focus on creating superior customer value by providing its customers with innovative and superior-quality products. The Group will proactively upgrade the quality of its manpower further through its human resource training and development programmes to equip its staff with the necessary skills to deal with the challenges and competition ahead. At the same time, stringent control will be maintained over the Group's operating expenses. Through MST(Beijing), the Group is well positioned to capitalise on business opportunities arising from China's entry into the World Trade Organisation, the 2002 World Cup and the 2008 Olympic Games in Beijing.

The Group is committed to strengthening its premier Morning Star brand and to enhance the competitiveness of its property development projects in the PRC in terms of design, layout, finishes, management services and clubhouse facilities. In 2002, the Group will focus on the development of Phase VIII of MSV and the Western site of MSP. At the same time, the Group is actively exploring other potential property projects for expansion.

Chairman's Statement

The recent acquisition of a 40% interest in the Plaza on Hyde Park Hotel in London will benefit the Group by providing a stable supply of guest rooms to its tour groups staying in London. In return, the Plaza on Hyde Park Hotel will have a higher occupancy with such tour groups. The Group will continue to explore other investment opportunities which are synergistic to the Group's current operations.

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.

TAN SRI DR. KHOO KAY PENG

Chairman

Hong Kong , 25th March, 2002