

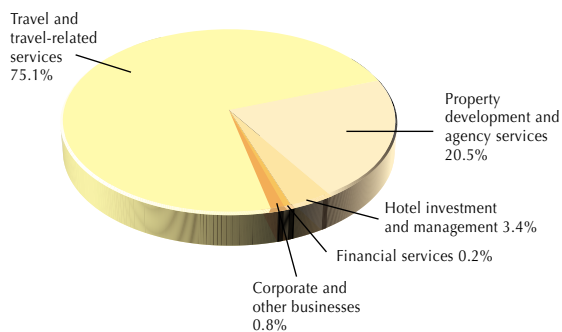
# Management Discussion and Analysis

## REVIEW OF FINANCIAL RESULTS

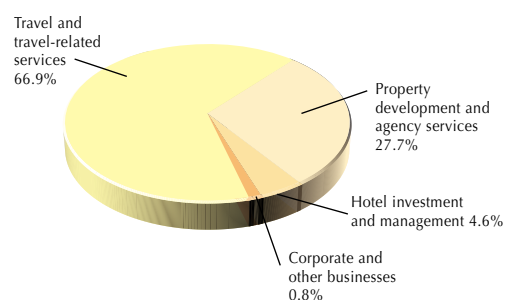
### Financial Highlights

	2001		2000	
	Turnover HK\$'000	Contribution HK\$'000	Turnover HK\$'000	Contribution HK\$'000
By business segments:				
Travel and travel-related services	548,081	4,341	519,521	(9,755)
Property development and agency services	149,585	40,630	213,788	42,154
Hotel investment and management	24,578	(5,835)	35,998	(2,355)
Financial services	1,245	(1,657)	—	—
Corporate and other businesses	5,488	(123,244)	6,268	3,947
Eliminations	(4,646)	(290)	(4,148)	(753)
	<b>724,331</b>	<b>(86,055)</b>	771,427	33,238
Interest and dividend income	—	4,419	—	4,197
Unallocated expenses	—	(14,239)	—	(15,000)
Total	<b>724,331</b>	<b>(95,875)</b>	771,427	22,435

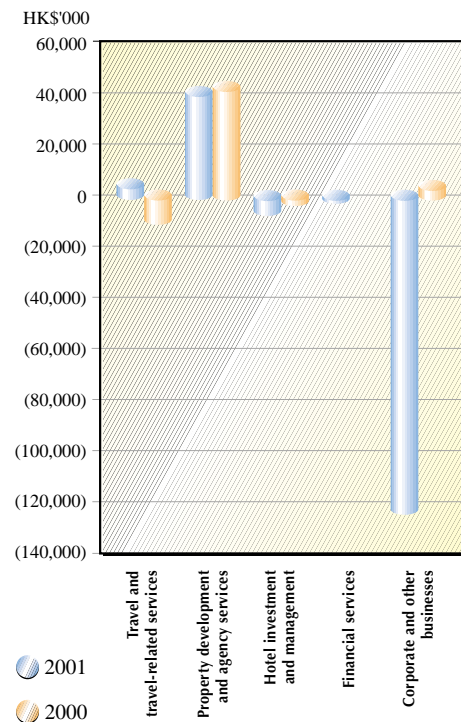
### Turnover by Business Segments - 2001



### Turnover by Business Segments - 2000



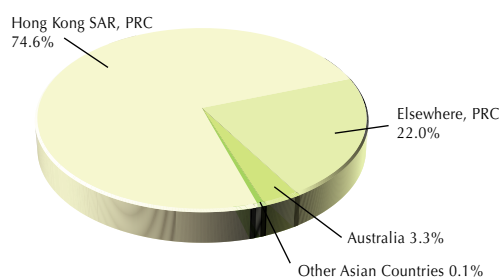
### Contribution by Business Segments



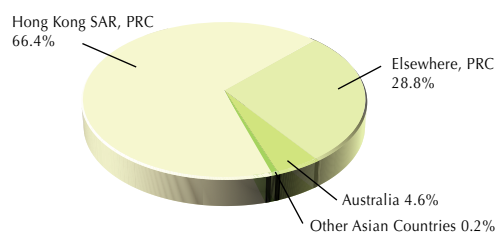
## Management Discussion and Analysis

	2001		2000	
	Turnover HK\$'000	Contribution HK\$'000	Turnover HK\$'000	Contribution HK\$'000
By geographical segments:				
People's Republic of China ("PRC"):				
Hong Kong SAR	540,342	(120,764)	512,357	(6,365)
Elsewhere	159,230	40,596	221,949	41,590
Australia	23,814	(5,932)	35,864	(997)
Other Asian Countries	945	45	1,257	(990)
	<b>724,331</b>	<b>(86,055)</b>	771,427	33,238
Interest and dividend income	—	4,419	—	4,197
Unallocated expenses	—	(14,239)	—	(15,000)
<b>Total</b>	<b>724,331</b>	<b>(95,875)</b>	771,427	22,435

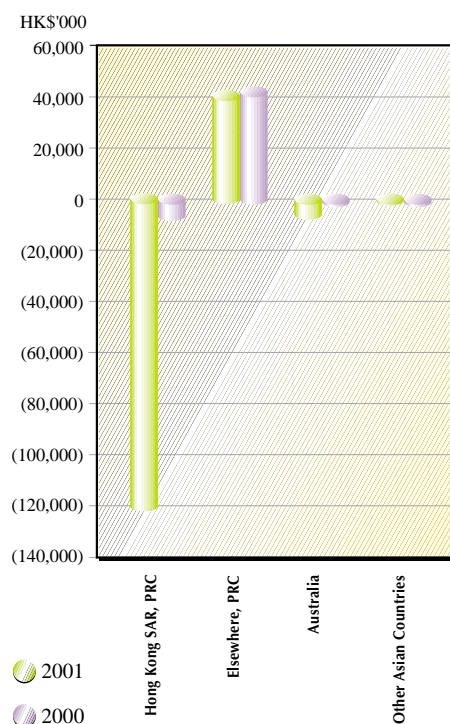
### Turnover by Geographical Segments - 2001



### Turnover by Geographical Segments - 2000



### Contribution by Geographical Segments



## Management Discussion and Analysis

### Group Overview

For the year ended 31st December, 2001, the Group's consolidated turnover amounted to HK\$724,331,000, a decrease of 6.1% as compared to HK\$771,427,000 for 2000. The Group's consolidated results from operating activities, before accounting for impairment of assets and revaluation deficit of investment properties, amounted to a profit of HK\$27,319,000 for the year ended 31st December, 2001 as compared to a profit of HK\$22,435,000 for 2000. However, the adoption of Statement of Standard Accounting Practice No. 31 "Impairment of Assets" issued by the Hong Kong Society of Accountants in January 2001 resulted in a provision for impairment of goodwill of HK\$16,996,000 in connection with the Group's investment in Zhaodaola Limited and a provision for impairment of land and buildings of HK\$102,112,000 in respect of the Group's two floors of office space in AXA Centre, Wanchai. In compliance with Hong Kong Statement of Standard Accounting Practice No. 13 "Accounting for Investment Properties", a further revaluation deficit of HK\$4,086,000 was accounted for in respect of the Group's investment properties in AXA Centre, Wanchai. As a result of such provisions, the Group registered a loss from operating activities of HK\$95,875,000 for 2001 as compared to a profit of HK\$22,435,000 for 2000.

### Travel and Tourism Division

Total turnover for the Group's travel and travel-related services for the year ended 31st December, 2001 amounted to HK\$548,081,000, an increase of 5.5% as compared to HK\$519,521,000 for 2000. Morning Star Travel Service Limited ("MST"), the Group's travel arm, successfully turned around in 2001 with an improvement in operating results by about HK\$14,000,000. Total turnover and the number of customers who joined the outbound tours of MST increased moderately in 2001 compared with the preceding year. There was a further improvement in average gross profit margin compared with the year before. In 2001, MST focussed on stringent cost control without compromising on quality with the result that its total operating expenses decreased further by nearly 8% compared with the previous financial year.

## Management Discussion and Analysis

### Property Division

Total turnover for the Group's property development and agency services for the year ended 31st December, 2001 amounted to HK\$149,585,000 as compared to HK\$213,788,000 for 2000. Earnings contribution amounted to HK\$40,630,000 for 2001 as compared to HK\$42,154,000 for 2000. Property development and agency services remained the Group's major earnings contributor in 2001. Although the turnover for 2001 recorded a decrease as compared with 2000, the Property Division had managed to maintain its earnings contribution to the Group as a result of cost savings made in respect of Morning Star Villa ("MSV") and Morning Star Plaza ("MSP"). 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. Savings had also been achieved on construction costs without compromising on quality. During the year, the construction of Phase VII - Parts I and II of MSV was completed and delivery of the housing units sold commenced in August 2001. The construction of Phase VII - Part III will be completed ahead of schedule by end of March 2002 and delivery of the housing units sold will commence in April 2002. The Group is at the final stage of completing its development plan for Phase VIII of MSV, which is expected to be launched during the second-half year in 2002. As for MSP, the construction on the Eastern site of approximately 50 mu was fully completed in September 2001. The construction on the Western site of MSP is expected to commence during the second-half year in 2002.

### Hotel Division

Total turnover for the Group's hotel investment and management services for the year ended 31st December, 2001 amounted to HK\$24,578,000 as compared to HK\$35,998,000 for 2000. The operating results amounted to a loss of HK\$5,835,000 for 2001 as compared to a loss of HK\$2,355,000 for 2000. Corus Grosvenor hotel in Adelaide started a major refurbishment programme in December 2000 which was completed in May 2001. Inevitably, its occupancy rate in 2001 was affected. With the Group's expansion of its hotel operations into UK through its acquisition of a 40% interest in Plaza on Hyde Park Limited ("POHP"), the Group will be able to realise synergy in terms of a stable supply of guest rooms to the tour groups conducted by MST and the Plaza on Hyde Park Hotel is expected to benefit from a higher occupancy with such tour groups.

## Management Discussion and Analysis

### Financial Services Division

Total turnover in respect of the Group's financial services for the year ended 31st December, 2001 amounted to HK\$1,245,000. After accounting for interest and dividend income, Morning Star Financial Services Limited and its subsidiaries recorded a consolidated net profit after tax of HK\$305,000 for the year ended 31st December, 2001. There are no comparative figures for 2000 as the Financial Services Division of the Group was acquired in December 2000.

### Corporate and Other Businesses

The turnover for corporate and other businesses, representing rental income received by the Group, amounted to HK\$5,488,000 for 31st December, 2001 as compared to HK\$6,268,000 for 2000. The loss for 2001 was attributable to provision for impairment of assets and revaluation deficit of investment properties totalling HK\$123,194,000 as explained under "Group Overview" above.

### Geographical Segments

In respect of geographical segments analysis, the turnover and contribution for Hong Kong SAR mainly relate to travel and travel-related services, financial services and other businesses. The turnover and contribution for elsewhere of PRC mainly relate to property development and agency services. The turnover and contribution for Australia are derived from hotel investment and management services. The turnover and contribution for other Asian countries include certain travel and travel-related services conducted outside of Hong Kong.

### REVIEW OF BALANCE SHEET

Non-current assets of the Group as at 31st December, 2001 amounted to HK\$303,749,000, a decrease of HK\$35,294,000 as compared to HK\$339,043,000 as at 31st December, 2000. Non-current assets mainly consist of fixed assets, investment properties, interests in jointly-controlled entities, interests in associates, long term investments, and pledged bank balances and time deposits. The Group's fixed assets amounted to HK\$155,729,000 as at 31st December, 2001, representing a decrease of HK\$107,548,000, as compared to HK\$263,277,000 as at 31st December, 2000. The decrease was mainly due to a provision for impairment of land and buildings amounting to HK\$102,112,000 made during the year. After the acquisition of a 40% interest in Plaza on Hyde Park Limited, the Group's

## Management Discussion and Analysis

interests in associates increased to HK\$92,129,000 as at 31st December, 2001 as compared to HK\$125,000 as at 31st December, 2000. Long term investments increased to HK\$20,643,000 as at 31st December, 2001 as compared to HK\$8,926,000 as at 31st December, 2000, as a result of an investment in Porchlight Entertainment, Inc. ("PEI") totalling US\$1,500,000 during the year.

The Group's current assets as at 31st December, 2001 totalled HK\$444,436,000 (2000: HK\$422,611,000). The Group's current liabilities as at 31st December, 2001 amounted to HK\$332,441,000 (2000: HK\$368,667,000).

### Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings was HK\$185,167,000, comprising mainly short-term bank borrowings with interest rates ranging from 3.85% to 10.50% per annum. The Group's available banking facilities not utilised as at 31st December, 2001 amounted to HK\$62,875,000.

### Capital Commitments

The Group had capital commitments totalling HK\$218,253,000 as at the balance sheet date. The capital commitments mainly related 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 banking facilities.

### Capital Structure

In order to achieve a better control of treasury operations, the Group centralises funding for all of its operations 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 subsidiaries, MST, for settlement of tour costs incurred in Japan. The Group manages 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 31st December, 2001 was HK\$185,167,000 (2000: HK\$163,594,000). The Group's total equity as at the balance sheet date was HK\$253,672,000 (2000: HK\$286,033,000).

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The Group's gearing ratio as at 31st December, 2001 was 0.73 as compared to 0.57 for 2000. The computation was based on total current and long term debts over the total equity of the Group. The increase in the Group's gearing ratio as compared to 2000 was due to a provision for impairment of assets made during the year, which reduced the total equity of the Group.

### Charges on Group Assets

As at the balance sheet date, certain assets of the Group with aggregate carrying value of HK137,459,000 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\$8,313,000 were pledged to certain banks to secure mortgage loan facilities granted to purchasers of MSV and MSP.

### STAFF ANALYSIS

Total number of staff employed by the Group as at 31st December, 2001 was 598 as compared to 607 as at 31st December, 2000. The Group's human resource policy 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 scales. 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 equip its employees with the necessary skills to deal with the challenges and competition ahead.

### NEW BUSINESS AND MATERIAL ACQUISITION

During the year, the Group, by way of a rights issue, raised approximately HK\$80,000,000 after expenses, which had been utilised towards part payment for the acquisition of a 40% interest in Plaza on Hyde Park Limited ("POHP"). The total consideration for this acquisition amounted to HK\$95,352,000. The balance of the consideration was satisfied by funds from the banking facilities of the Group. POHP is a company incorporated in the United Kingdom ("UK"). The principal asset of POHP is its interest in the Plaza on Hyde Park Hotel located at Lancaster Gate, London W2 3LG, UK.

## Management Discussion and Analysis

The acquisition of a stake in POHP is to enable the Group to expand its network of hotel operations into UK. With London being a popular destination for many travellers from Asia, the Group will be able to realise synergy in terms of providing a stable supply of guest rooms to the tour groups conducted by the Group and POHP will benefit from a higher occupancy rate with such tour groups. The Directors expect that the acquisition will increase the asset base of the Group significantly and provide an attractive opportunity for the Group to invest in this profit generating hotel business with a prime strategic location.

During the year, the Group had also invested in 1,500,000 shares of the 10% convertible cumulative preferred stock ("Preferred Stock") in PEI for a total consideration of US\$1,500,000. PEI is a corporation established under the laws of the State of Delaware, USA. The principal business of PEI is production of family movies. For the year ended 31st December, 2001, PEI declared dividends on the Preferred Stock by way of a bonus issue. The dividend received by the Group, which amounted to 45,205 shares of the Preferred Stock, was calculated proportionately from the date of investment to 31st December, 2001. After taking into consideration of the dividend received, the Group holds a total of 1,545,205 shares of the Preferred Stock in PEI.