

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, 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Company 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, financial services and securities broking. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st December, 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 88.

No dividends have been declared in respect of the year.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out on page 93.

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 13 and 14 to the financial statements, respectively.

Report of the Directors

SHARE CAPITAL AND WARRANTS

Details of movements in the Company's share capital and warrants during the year are set out in note 31 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

At 31st December, 2001, the Company had no reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (1998 Revision) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

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

DIRECTORS

The Directors of the Company during the year were:

Executive Director:

CHEANG Yoon Hoong

Non-Executive Directors:

Tan Sri Dr. KHOO Kay Peng

KHET Kok Yin

LOY Yet King

Independent Non-Executive Directors:

Edward SHEN

WONG Kim Ling

Report of the Directors

In accordance with the Company's articles of association, Mr. WONG Kim Ling will retire and, being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

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, SRT Design (China) Limited and SRT Architects 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 39 to the financial statements.

Save as disclosed above and in note 39 to the financial statements, no Director had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Tan Sri Dr. KHOO Kay Peng is the chairman and group chief executive of Malayan United Industries Berhad ("MUI"), which is a publicly listed company in Malaysia. MUI and its subsidiaries ("The MUI Group") are engaged in various businesses including retailing, hotels, food and confectionery, property, financial services, manufacturing, trading, education services, travel and tourism in Malaysia, Asia Pacific, Australia, the United States of America, the United Kingdom and Europe.

Report of the Directors

Mr. KHET Kok Yin and Mr. LOY Yet King are directors of MUI and Mr. CHEANG Yoon Hoong is a director of a number of subsidiaries of MUI.

By virtue of the interests of Tan Sri Dr. KHOO, Mr. KHET, Mr. LOY and Mr. CHEANG in The MUI Group as mentioned above, they are considered to have interests in the businesses of The MUI Group. Both The MUI Group and MUI Hong Kong Ltd. and its subsidiaries (“The MUI HK Group”) are engaged in travel and travel-related services, hotel investment and management services, property development and property agency services, financial services and securities broking which are complementary and synergistic with each other, but not competing pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The MUI HK Group operates its businesses mainly in Hong Kong and mainland China, whilst The MUI Group’s operations are outside Hong Kong and mainland China. In essence, the businesses between The MUI HK Group and The MUI Group are synergistic to each other. Although both of The MUI HK Group and The MUI Group own hotels in Australia, the businesses are complementary as they are located in different territories.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading “Directors’ interests in share capital and warrants” below, 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.

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 corporation 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		
	Personal interest	Corporate interest	Total
Tan Sri Dr. KHOO Kay Peng	—	1,874,037,657	1,874,037,657
		(Note)	
CHEANG Yoon Hoong	19,918,500	—	19,918,500
KHET Kok Yin	6,807,500	—	6,807,500
LOY Yet King	19,450,000	—	19,450,000

Report of the Directors

(2) Warrants*

Name of Director	Number of units of warrants held		
	Personal interest	Corporate interest	Total
Tan Sri Dr. KHOO Kay Peng	—	200,716,650 (Note)	200,716,650
CHEANG Yoon Hoong	2,396,210	—	2,396,210
KHET Kok Yin	2,456,842	—	2,456,842
LOY Yet King	12,284,210	—	12,284,210

* With effect from 6th October, 2001, the subscription price for the exercise of the warrants of the Company was adjusted from HK\$0.20 per share to HK\$0.19 per share as a result of the rights issue of the Company completed on 30th October, 2001, further details of which are set out in note 31 to the financial statements.

(ii) Associated corporation

Name of Director	Nature of	
	interest	Number of shares held
Morning Star Financial Services Limited ("MSFS")	Tan Sri Dr. KHOO Kay Peng Corporate (Note)	16,385,000 ordinary shares of HK\$1 each

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

Note:

979,572,985 shares issued by the Company and 16,385,000 shares issued by MSFS were held by Firstway International Investment Limited ("Firstway"), and 894,464,672 shares and 200,716,650 warrants issued by the Company were held by Bonham Industries Limited ("Bonham"). Both of Firstway and Bonham are companies controlled by Tan Sri Dr. KHOO Kay Peng.

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

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

Name	Age	Position held	Number of years of service	Business experience
Tan Sri Dr. KHOO Kay Peng	63	Chairman	8	Tan Sri Dr. KHOO is the chairman and group chief executive of Malayan United Industries Berhad ("MUI"), which is a diversified group with business interests in the Asia Pacific, Australia, the United States of America ("USA"), the United Kingdom ("UK") and Europe. He is also the chairman of Firstway International Investment Limited, which is a substantial shareholder of the Company, and Laura Ashley Holdings plc, UK, a director of SCMP Group Limited and The Bank of East Asia, Limited, Hong Kong. Previously, Tan Sri Dr. KHOO had served as the chairman of the Tourist Development Corporation and the vice-chairman of Malayan Banking Berhad, Malaysia. Currently, he is a trustee of Malaysian Humanitarian Foundation and Regent University, Virginia, USA.
CHEANG Yoon Hoong	52	Managing Director	5½	Mr. CHEANG is a Chartered Accountant 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.

Report of the Directors

Name	Age	Position held	Number of years of service	Business experience
KHET Kok Yin	55	Director	5 $\frac{1}{2}$	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, and also heads the Food Division, the Financial Services Division as well as the Management Services Division of The MUI Group.
LOY Yet King	55	Director	2	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 Corus & Regal Hotels plc, UK. Mr. LOY also sits on the boards of directors of several publicly listed companies of The MUI Group in Malaysia, Singapore and Australia.
Edward SHEN	51	Director	9	Mr. SHEN has more than twenty-five years' experience in the architectural and property development fields.
WONG Kim Ling	65	Director	3	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.

Report of the Directors

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>	979,572,985
Cherubim Investment (HK) Limited — <i>Note (a)</i>	979,572,985
Firstway International Investment Limited (“Firstway”) — <i>Note (b)</i>	979,572,985
Bonham Industries Limited (“Bonham”) — <i>Note (b)</i>	894,464,672

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 Tan Sri Dr. KHOO Kay Peng under “Directors’ interests in share capital and warrants” above.*

SIGNIFICANT CONNECTED TRANSACTIONS

- (1) The Company entered into 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 known as Kerry Financial Services Limited) for a cash consideration of a total of HK\$3,180,000:

Report of the Directors

The agreements	Signing parties	Contents
(a) Sale and purchase agreement dated 12th March, 2001 (the "1st Agreement")	The Company as the purchaser and JK, KH and KP as the vendors	(i) Acquisition of 500,000 shares in MSFS from JK for HK\$530,000 (ii) Acquisition of 1,000,000 shares in MSFS from KH for HK\$1,060,000 (iii) Acquisition of 400,000 shares in MSFS from KP for HK\$424,000
(b) 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

The MSFS group is engaged in investment holding, securities broking, and the provision of investment advisory services and nominee services. The Directors of the Company believed that the acquisitions would enable the Company to further strengthen its control over MSFS and the spirit of co-operation between the Company and Firstway, which held approximately 38.2% of the issued share capital of MSFS as at the date of 1st and 2nd agreements, and would ensure a smooth operation of the business of MSFS, which would be in the best interests of the Group, including the MSFS group. The Directors also considered that the 1st and 2nd Agreements were on normal commercial terms which were fair and reasonable. Upon completion of the transactions pursuant to the 1st and 2nd Agreements, the shareholding interest of the Company in MSFS will increase to approximately 61.8%.

Report of the Directors

As Firstway, being a substantial shareholder holding a 40.6% interest in the issued share capital of the Company, is a company controlled by Tan Sri Dr. KHOO Kay Peng (“Tan Sri Dr. KHOO”), the Non-Executive Chairman of the Company, it is an associate of Tan Sri Dr. KHOO as defined in the Listing Rules. By virtue of Firstway’s equity interest in MSFS as mentioned above, the transactions set out in 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 respect of connected transactions.

- (2) During the year, Morning Star Securities Limited (“MSSL”), an indirect 59.2% owned subsidiary of the Company, was granted banking facilities of up to HK\$20 million (the “Facility”) from a bank in Hong Kong. As a security for the Facility, each of Firstway and the Company, being the substantial shareholders of the holding company of MSSL, was required to provide corporate guarantee in favour of the bank for an amount not exceeding HK\$10 million, being 50% each of the Facility. Accordingly, the Company, on 20th April, 2001, executed such corporate guarantee in favour of the bank.

As Firstway, being a substantial shareholder holding a 40.6% interest in the issued share capital of the Company, is a company controlled by Tan Sri Dr. KHOO, the Non-Executive Chairman of the Company, it is an associate of Tan Sri Dr. KHOO as defined in the Listing Rules. By virtue of the fact that Firstway is a substantial shareholder of the holding company of MSSL, the issue of a several corporate guarantee by the Company as aforesaid constituted a connected transaction for the Company.

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.

Report of the Directors

CAPITAL RESOURCES

During the year, the Group, by way of a rights issue, raised approximately HK\$80 million after share issue expenses, which has been utilised for the part payment of the consideration for the acquisition of a 40% equity interest in Plaza on Hyde Park Limited, a company incorporated in the United Kingdom (“UK”), which owns the Plaza on Hyde Park Hotel in London, UK.

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 of the Listing Rules 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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two Independent Non-Executive Directors and a Non-Executive Director of the Company.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 38 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, 25th March, 2002