

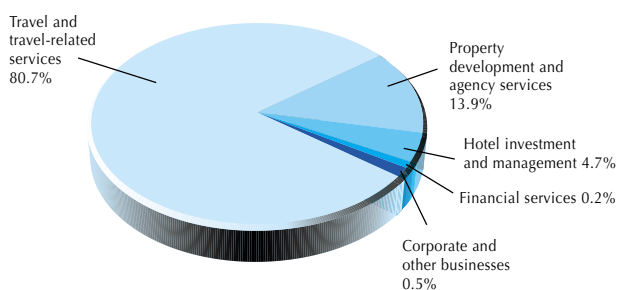
# Management Discussion and Analysis

## REVIEW OF FINANCIAL RESULTS

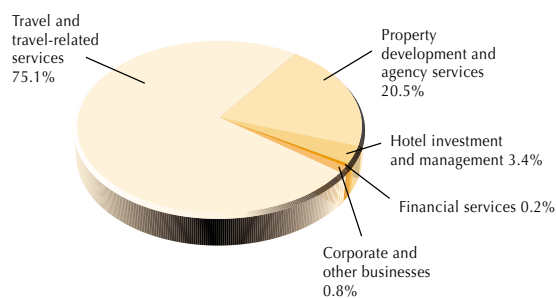
### Financial Highlights

	2002		2001	
	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Contribution <i>HK\$'000</i>
By business segments:				
Travel and travel-related services	489,964	4,455	548,081	4,341
Property development and agency services	84,210	24,413	149,585	40,630
Hotel investment and management	28,598	966	24,578	(5,835)
Financial services	914	1,382	1,245	(1,657)
Corporate and other businesses	3,399	1,544	5,488	(123,244)
Eliminations	(3,215)	—	(4,646)	(290)
	<b>603,870</b>	<b>32,760</b>	724,331	(86,055)
Interest and dividend income	—	4,247	—	4,419
Unallocated expenses	—	(14,864)	—	(14,239)
<b>Total</b>	<b>603,870</b>	<b>22,143</b>	724,331	(95,875)

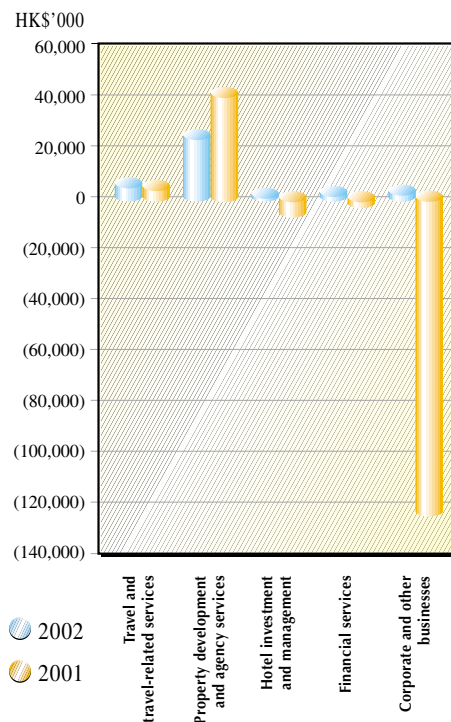
Turnover by Business Segments - 2002



Turnover by Business Segments - 2001



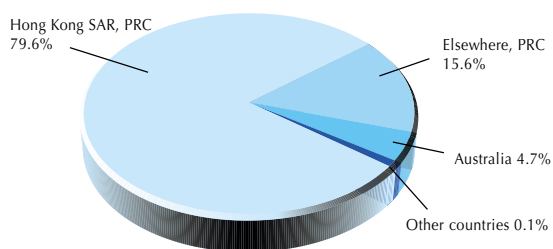
Contribution by Business Segments



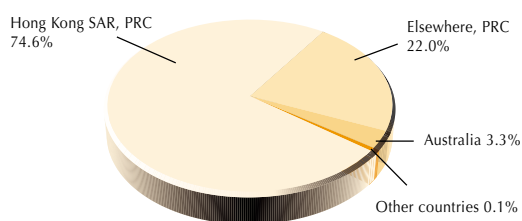
# Management Discussion and Analysis

	2002		2001	
	Turnover HK\$'000	Contribution HK\$'000	Turnover HK\$'000	Contribution HK\$'000
By geographical segments:				
People's Republic of China ("PRC"):				
Hong Kong SAR	480,962	8,654	540,342	(120,764)
Elsewhere	93,958	23,774	159,230	40,596
Australia	28,406	(19)	23,814	(5,932)
Other countries	544	351	945	45
Eliminations	—	—	—	—
	<b>603,870</b>	<b>32,760</b>	724,331	(86,055)
Interest and dividend income	—	4,247	—	4,419
Unallocated expenses	—	(14,864)	—	(14,239)
<b>Total</b>	<b>603,870</b>	<b>22,143</b>	724,331	(95,875)

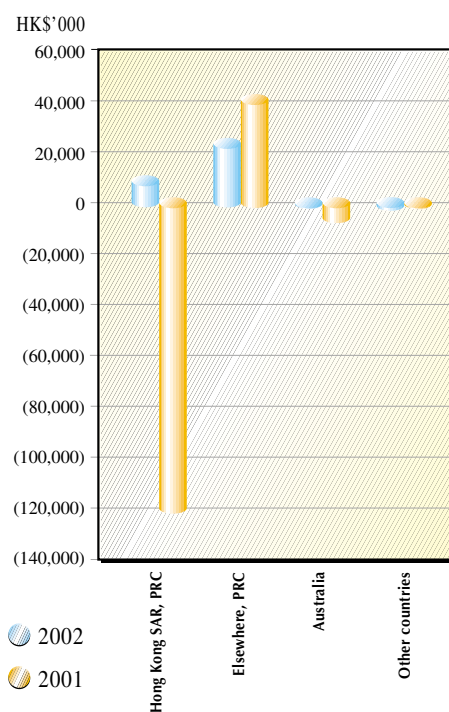
Turnover by Geographical Segments - 2002



Turnover by Geographical Segments - 2001



Contribution by Geographical Segments



# Management Discussion and Analysis

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## Group Overview

For the year ended 31st December, 2002, the Group's consolidated turnover amounted to HK\$603,870,000, a decrease of 16.6% as compared to HK\$724,331,000 for 2001. The Group's consolidated profit from operating activities amounted to HK\$22,143,000 for the year ended 31st December, 2002 as compared to a loss of HK\$95,875,000 for 2001. For the year ended 31st December, 2002, net profit from ordinary activities attributable to shareholders amounted to HK\$2,093,000 as compared to a loss of HK\$125,234,000 for 2001. Despite the decrease in total turnover, reflecting the present state of the travel industry and property market, the Group achieved a better overall gross profit margin in 2002 for both the Travel and Tourism Division and Property Division as compared to 2001. For the year under review, further reductions in operating expenses were also achieved resulting in a net profit attributable to shareholders of HK\$2,093,000 for the year ended 31st December, 2002.

## Travel and Tourism Division

Total turnover for the Group's travel and travel-related services for the year ended 31st December, 2002 amounted to HK\$489,964,000, a decrease of 10.6% as compared to HK\$548,081,000 for 2001. Morning Star Travel's Outbound Department recorded a lower total turnover compared with last year, though the number of customers who joined its package tours was about the same as last year. The lower total turnover was mainly attributable to the following factors: persistent deflation which continued to exert downward pressure on tour fares; change in business mix as higher priced long-haul groups decreased whilst lower priced short-haul groups increased. Despite the difficult economic conditions in 2002, tour groups to the following destinations showed strong improvement compared with the year before: Japan, Thailand and China-Short Haul. The Outbound Department's overall gross profit margin also improved by 0.7 percentage point year-on-year whilst its total operating expenses decreased by 8.2% compared with last year.

Morning Star Travel's Ticketing Department successfully turned around in 2002 with a modest increase in sales, further enhancement of gross profit margin and reduced operating expenses.

The Travel and Tourism Division contributed a net operating profit of HK\$4,455,000 to the Group for year 2002 (2001: HK\$4,341,000).

# Management Discussion and Analysis

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## Property Division

Total turnover for the Group's property development and agency services for the year ended 31st December, 2002 amounted to HK\$84,210,000 as compared to HK\$149,585,000 for 2001. The decrease in total turnover was partly attributable to the prevailing difficult economic conditions in Hong Kong SAR as potential buyers of Morning Star Villa ("MSV") in Zhongshan appeared to have adopted a "wait and see" attitude as they feared that property prices in the PRC might fall further. Moreover, an over-supply situation in Zhongshan and Guangdong Province persisted throughout 2002 which depressed selling prices. Earnings contribution by the Property Division amounted to HK\$24,413,000 for 2002 as compared to HK\$40,630,000 for 2001. Property development and agency services remained the Group's major earnings contributor in 2002. In view of such operating environment, the Group minimised its risk exposure by focusing on sales of completed units in 2002 and deferred the launch of pre-sale of Part I (211 units) of Phase VIII Firenze of MSV until February 2003 and Parts I & II of the Western site of Morning Star Plaza ("MSP") which comprises a 12-storey tower, a 9-storey tower and three 7-storey towers until the second quarter of 2003.

## Hotel Division

Total turnover for the Group's hotel investment and management business for the year ended 31st December, 2002 amounted to HK\$28,598,000 as compared to HK\$24,578,000 for 2001. The operating profit amounted to HK\$966,000 for the year ended 31st December, 2002 as compared to a loss of HK\$5,835,000 for 2001. The improvement in both turnover and operating results in 2002 was due to a major refurbishment programme during the first half year in 2001 in the Corus Grosvenor hotel in Adelaide, which affected its business in 2001.

With the Group's acquisition of a 40% interest in Plaza on Hyde Park Limited in 2001, the Group has equity accounted for its profit before tax amounting to HK\$4,965,000 for the year ended 31st December, 2002.

# Management Discussion and Analysis

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## Financial Services Division

Total turnover of the Group's Financial Services Division for the year ended 31st December, 2002 amounted to HK\$914,000 as compared to HK\$1,245,000 for 2001. The operating results amounted to a profit of HK\$1,382,000 for the year ended 31st December, 2002 as compared to a loss of HK\$1,657,000 for 2001. The turnover of the Financial Services Division is mainly derived from securities broking. In 2002, stock-broking conditions became increasingly hostile, characterised by thin trading volumes and a very large number of small brokerage houses struggling to survive in the face of competition from a very small number of larger, bank-based brokerage houses which offered low commission rates, free custodian fee, overdraft and share margin financing facilities. The improvement in operating results for 2002 as compared to 2001 was partly due to savings in operating expenses.

## Corporate and Other Businesses

The turnover for other operations, representing rental income received by the Group in respect of certain leased office space in AXA Centre, after intersegment eliminations, amounted to HK\$184,000 for the year ended 31st December, 2002 as compared to HK\$842,000 for 2001.

In respect of the Group's investment in 1,500,000 shares of the 10% convertible cumulative preferred stock ("Preferred Stock") in Porchlight Entertainment, Inc. ("PEI") for a total consideration of US\$1,500,000 in 2001, PEI declared dividends on the Preferred Stock by way of bonus issues to the Group. For the year ended 31st December, 2002, PEI declared a bonus issue to the Group totalling 158,383 shares of the Preferred Stock. After taking into consideration of bonus issues received for the year ended 31st December, 2002, the Group holds a total of 1,703,588 shares of the Preferred Stock in PEI. The dividend received by the Group for the year ended 31st December, 2002, which amounted to HK\$1,235,000 in value, was included in other revenue of the Group.

## Geographical Segments

As for the geographical segments analysis, the revenue for Hong Kong SAR mainly relates to travel and travel-related services, financial services and other businesses. The revenue for elsewhere in the PRC is principally from property development and agency services. The revenue for Australia is derived from hotel investment and management services. The revenue for other countries includes certain travel and travel-related services conducted outside of Hong Kong SAR.

# Management Discussion and Analysis

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## REVIEW OF BALANCE SHEET

### Overview

Non-current assets as at 31st December, 2002, consisting mainly fixed assets, interests in associates and long term investments, amounted to HK\$322,982,000, an increase of HK\$12,357,000 as compared to HK\$310,625,000 as at 31st December, 2001. Current assets as at 31st December, 2002 totalled HK\$381,068,000, against HK\$437,560,000 as at 31st December, 2001. Current liabilities as at 31st December, 2002 amounted to HK\$300,134,000, compared with HK\$332,441,000 as at 31st December, 2001.

### Capital Structure, Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings was HK\$197,724,000 comprising mainly short term bank borrowings with interest rates ranging from 3.270% to 6.875% per annum. The Group's total available banking facilities not utilised as at 31st December, 2002 was HK\$41,913,000.

The Group's total current and long term debts as at 31st December, 2002 was HK\$197,724,000 (2001: HK\$185,167,000). The Group's total equity as at the balance sheet date was HK\$269,720,000 (2001: HK\$253,672,000).

The Group's gearing ratio as at the balance sheet date was 0.73 which was the same as 2001. The gearing ratio was based on total current and long term debts over the total equity of the Group.

In order to achieve a better control of treasury operations, the Group centralises 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 subsidiaries, Morning Star Travel Service Limited, 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.

# Management Discussion and Analysis

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## **Capital Commitments**

The Group had capital commitments totalling HK\$186,515,000 as at the balance sheet date. The capital commitments related mainly to the Group's property projects in Zhongshan, PRC. Such commitments will be satisfied by funds generated from the sale of properties and from the Group's available cash and banking facilities.

## **Charges on Group Assets**

As at the balance sheet date, certain assets of the Group with aggregate carrying value of HK\$139,564,000 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\$8,733,000 were pledged to certain banks to secure mortgage loan facilities granted to purchasers of properties developed by MSV and MSP.

## **STAFF ANALYSIS**

The total number of staff employed by the Group as at 31st December, 2002 was 613 (2001: 598). 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 its employees. The Group continues to implement the 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 competitions ahead.

## **NEW BUSINESS AND MATERIAL ACQUISITION**

There was no material acquisition and new business for the year ended 31st December, 2002.