



星晨集團有限公司

Morning Star Resources Limited

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2004

UNAUDITED INTERIM RESULTS

The Board of Directors of Morning Star Resources Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30th June,	
		2004	2003
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
TURNOVER	2	239,368	184,467
Cost of sales		(205,806)	(146,880)
Gross profit		33,562	37,587
Other revenue and gains	3	11,564	5,434
Selling and promotional expenses		(8,768)	(10,391)
Administrative expenses		(41,856)	(42,309)
LOSS FROM OPERATING ACTIVITIES	2, 4	(5,498)	(9,679)
Finance costs	5	(1,623)	(3,576)
Share of profits less losses of associates		596	552
Share of profits less losses of jointly-controlled entities		(342)	(122)
LOSS BEFORE TAX		(6,867)	(12,825)
Tax	6	3,080	619
LOSS AFTER TAX		(3,787)	(12,206)
Minority interests		(444)	862
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(4,231)	(11,344)
LOSS PER SHARE – Basic	7	(0.18 cent)	(0.47 cent)

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		105,309	106,149
Investment properties		7,074	7,074
Properties under development		3,806	3,806
Interests in jointly-controlled entities		5,865	5,980
Interests in associates		119,148	116,247
Long term investments		36,443	36,421
Other assets		6,928	6,900
Pledged bank balances and time deposits		5,370	7,687
Deferred tax assets		12,396	11,944
		302,339	302,208
CURRENT ASSETS			
Due from related companies		4,262	5,722
Properties held for sale		75,882	89,893
Properties under development held for sale		111,748	111,642
Short term investments		398	421
Inventories		486	649
Trade receivables	9	36,539	25,663
Other receivables		36,727	35,661
Client trust bank balances		8,210	8,375
Cash and cash equivalents		53,703	53,846
		327,955	331,872
CURRENT LIABILITIES			
Due to related companies		153	95
Tax payable		13,160	17,186
Trade payables, other payables and accruals	10	95,641	98,010
Interest-bearing bank borrowings		143,065	137,743
Non-interest-bearing other borrowings		16,710	16,710
		268,729	269,744
NET CURRENT ASSETS		59,226	62,128
TOTAL ASSETS LESS CURRENT LIABILITIES		361,565	364,336
MINORITY INTERESTS		87,082	86,227
		274,483	278,109
CAPITAL AND RESERVES			
Issued capital		482,910	482,910
Reserves		(208,427)	(204,801)
		274,483	278,109

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30th June,
2004 2003
(Unaudited) (Unaudited)
HK\$'000 *HK\$'000*

NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(6,538)	(33,400)
NET CASH INFLOW/ (OUTFLOW) FROM INVESTING ACTIVITIES	2,354	(2,962)
NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	<u>10,081</u>	<u>(8,425)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	5,897	(44,787)
Cash and cash equivalents at beginning of period	41,103	111,190
Effect of foreign exchange adjustments, net	<u>(1,362)</u>	<u>6,635</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	<u>45,638</u>	<u>73,038</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	53,703	91,117
Bank overdrafts	<u>(8,065)</u>	<u>(18,079)</u>
	<u>45,638</u>	<u>73,038</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Subscription rights reserve (Unaudited) HK\$'000	Exchange realignment reserve (Unaudited) HK\$'000	Goodwill reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st January, 2004	482,910	3,423	2,905	1,155	(78)	(212,206)	278,109
Exchange realignment and net gains not recognised in profit and loss account	-	-	-	605	-	-	605
Net loss for the period	-	-	-	-	-	(4,231)	(4,231)
At 30th June, 2004	<u>482,910</u>	<u>3,423</u>	<u>2,905</u>	<u>1,760</u>	<u>(78)</u>	<u>(216,437)</u>	<u>274,483</u>
At 1st January, 2003							
- as previously reported	482,910	3,423	2,905	(24,502)	(78)	(194,938)	269,720
- adjustment on adoption of SSAP12 (Revised)	-	-	-	-	-	6,660	6,660
- as restated	482,910	3,423	2,905	(24,502)	(78)	(188,278)	276,380
Exchange realignment and net gains not recognised in profit and loss account	-	-	-	9,788	-	-	9,788
Net loss for the period	-	-	-	-	-	(11,344)	(11,344)
At 30th June, 2003	<u>482,910</u>	<u>3,423</u>	<u>2,905</u>	<u>(14,714)</u>	<u>(78)</u>	<u>(199,622)</u>	<u>274,824</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30th June, 2004

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2003.

2. SEGMENT INFORMATION

An analysis of the Group’s segment revenue and segment results by business segments and geographical segments are summarised as follows:

(i) Business segments

(a) Revenue

	<i>For the six months ended 30th June, 2004</i>			
	<i>Sales to external customers (Unaudited) HK\$’000</i>	<i>Intersegment sales (Unaudited) HK\$’000</i>	<i>Other revenue (Unaudited) HK\$’000</i>	<i>Total (Unaudited) HK\$’000</i>
<i>Travel and travel-related services</i>	199,769	-	2,809	202,578
<i>Property development and agency services</i>	36,933	-	1,265	38,198
<i>Hotel investment and management</i>	1,506	-	-	1,506
<i>Financial services</i>	1,000	-	6,040	7,040
<i>Corporate and other businesses</i>	160	1,464	21	1,645
	239,368	1,464	10,135	250,967
<i>Eliminations</i>	-	(1,464)	-	(1,464)
	239,368	-	10,135	249,503

For the six months ended 30th June, 2003

	Sales to external customers (Unaudited) HK\$'000	Intersegment sales (Unaudited) HK\$'000	Other revenue (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Travel and travel-related services	154,614	–	2,510	157,124
Property development and agency services	13,832	–	1,127	14,959
Hotel investment and management	14,797	–	–	14,797
Financial services	1,064	–	–	1,064
Corporate and other businesses	160	1,526	47	1,733
	184,467	1,526	3,684	189,677
Eliminations	–	(1,526)	–	(1,526)
	184,467	–	3,684	188,151

(b) Results

For the six months ended 30th June,

	2004			2003		
	Segment results (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Segment results (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Travel and travel- related services	(9,127)	–	(9,127)	(7,847)	–	(7,847)
Property development and agency services	(562)	–	(562)	(1,193)	–	(1,193)
Hotel investment and management	(517)	–	(517)	351	–	351
Financial services	5,594	–	5,594	(1,052)	–	(1,052)
Corporate and other businesses	768	(429)	339	1,718	(448)	1,270
	(3,844)	(429)	(4,273)	(8,023)	(448)	(8,471)
Interest income and dividend income			1,429			1,750
Unallocated expenses			(2,654)			(2,958)
Loss from operating activities			(5,498)			(9,679)

(ii) *Geographical segments*

(a) *Revenue*

<i>For the six months ended 30th June, 2004</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong SAR</i>	197,351	801	8,773	206,925
<i>Elsewhere in the PRC</i>	40,469	–	1,292	41,761
<i>Australia</i>	1,095	–	–	1,095
<i>Others</i>	453	–	70	523
	<u>239,368</u>	<u>801</u>	<u>10,135</u>	<u>250,304</u>
<i>Eliminations</i>	<u>–</u>	<u>(801)</u>	<u>–</u>	<u>(801)</u>
	<u>239,368</u>	<u>–</u>	<u>10,135</u>	<u>249,503</u>
<i>For the six months ended 30th June, 2003</i>				
	<i>Sales to external customers</i>	<i>Intersegment sales</i>	<i>Other revenue</i>	<i>Total</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong SAR</i>	152,331	956	2,296	155,583
<i>Elsewhere in the PRC</i>	16,790	–	1,151	17,941
<i>Australia</i>	15,075	117	–	15,192
<i>Others</i>	271	–	237	508
	<u>184,467</u>	<u>1,073</u>	<u>3,684</u>	<u>189,224</u>
<i>Eliminations</i>	<u>–</u>	<u>(1,073)</u>	<u>–</u>	<u>(1,073)</u>
	<u>184,467</u>	<u>–</u>	<u>3,684</u>	<u>188,151</u>

(b) Results

For the six months ended 30th June,						
2004			2003			
	Segment results (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Segment results (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Hong Kong SAR	(3,013)	-	(3,013)	(7,256)	-	(7,256)
Elsewhere in the						
PRC	(838)	-	(838)	(1,432)	-	(1,432)
Australia	(748)	-	(748)	(145)	-	(145)
Others	326	-	326	362	-	362
	<u>(4,273)</u>	<u>-</u>	<u>(4,273)</u>	<u>(8,471)</u>	<u>-</u>	<u>(8,471)</u>

3. OTHER REVENUE AND GAINS

For the six months ended 30th June,		
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Income arising from deposits on properties forfeited by purchasers	171	48
Visa income	411	482
Commission income	2,053	1,481
Negative goodwill recognised as income for the period	102	102
Capital distribution from unlisted investment	6,040	-
Others	<u>1,358</u>	<u>1,571</u>
	10,135	3,684
Interest income	701	1,091
Dividend from unlisted long term investments	<u>728</u>	<u>659</u>
	<u>11,564</u>	<u>5,434</u>

4. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging:

	<i>For the six months ended 30th June,</i>	
	<i>2004</i>	<i>2003</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Depreciation:</i>		
<i>Owned property, plant and equipment</i>	<i>1,330</i>	<i>2,899</i>
<i>Leased property, plant and equipment</i>	<i>—</i>	<i>13</i>
	<i>1,330</i>	<i>2,912</i>

5. FINANCE COSTS

	<i>For the six months ended 30th June,</i>	
	<i>2004</i>	<i>2003</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Interest on bank loans and overdrafts wholly repayable within five years</i>	<i>1,623</i>	<i>3,558</i>
<i>Interest on finance leases</i>	<i>—</i>	<i>18</i>
	<i>1,623</i>	<i>3,576</i>

6. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30th June, 2003: Nil).

Taxes on profits assessable elsewhere have been calculated based on existing legislation and practices at the rates of tax prevailing in the countries in which the Group operates. The tax charge for the period arose as follows:

	For the six months ended 30th June,	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Overseas taxation</i>		
– current period	672	584
– overprovision in prior years	(3,017)	–
<i>Deferred taxation</i>		
– current period	(735)	(578)
– attributable to change in tax rate	–	(625)
<i>Tax credit for the period</i>	<u>(3,080)</u>	<u>(619)</u>

7. LOSS PER SHARE

The calculation of the basic loss per share for the period is based on the loss of HK\$4,231,000 (six months ended 30th June, 2003: HK\$11,344,000) and the 2,414,547,555 shares (2003: 2,414,547,555 shares) in issue during the period.

The diluted loss per share for the periods ended 30th June, 2004 and 2003 has not been shown as the warrants outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

8. DIVIDENDS

At a meeting of the Board of Directors held on 6th September, 2004, the Directors resolved not to declare an interim dividend in respect of the year ending 31st December, 2004.

9. TRADE RECEIVABLES

The Group grants credit periods of up to 30 days to its trade customers. Details of the aging analysis of trade receivables are as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
<i>Current</i>	21,415	13,956
<i>1-3 months</i>	6,298	10,144
<i>Over 3 months</i>	8,826	1,563
	36,539	25,663

10. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

Included in the trade payables, other payables and accruals is a trade payables balance of HK\$21,469,000 (31st December, 2003: HK\$18,371,000). Details of the aging analysis of trade payables are as follows:

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
<i>Current</i>	20,047	16,774
<i>1-3 months</i>	397	1,245
<i>Over 3 months</i>	1,025	352
	21,469	18,371

11. RELATED PARTY TRANSACTIONS

		<i>For the six months ended 30th June,</i>	
		2004	2003
<i>Notes</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	
	HK\$'000	HK\$'000	
<i>Rental income received from:</i>			
<i>Laura Ashley Limited</i>			
<i>(“LAL”)</i>	<i>(i)</i>	160	160
<i>Architectural consultancy fees paid to:</i>			
<i>Shen & Partners Limited</i>			
<i>(“Shen & P”)</i>	<i>(ii)</i>	440	824
<i>SRT Design (China) Limited</i>			
<i>(“SRT (China)”)</i>	<i>(ii)</i>	100	143
<i>SRT Architect Limited</i>			
<i>(“SRT”)</i>	<i>(ii)</i>	16	–
<i>Interest income from</i>			
<i>Morning Star Villa</i>			
<i>Management Limited</i>			
<i>(“MVM”)</i>	<i>(iii)</i>	10	59
<i>Management fee paid to MVM</i>	<i>(iv)</i>	113	192

Notes:

- (i) *LAL is a wholly-owned subsidiary of Laura Ashley Holdings plc (“LAH”). Tan Sri Dr. KHOO Kay Peng, the Non-Executive Chairman of the Company, is also the chairman of LAH. Pursuant to a tenancy agreement entered into between the Group and LAL in 2002, the Group leased office area to LAL for a period of two years at a total annual rental of HK\$319,000. The tenancy agreement expired on 30th April, 2004. On 1st May, 2004, the Group renewed the tenancy agreement with LAL with same terms and conditions as the previous agreement. The rental charged to LAL was determined by reference to open market rates.*
- (ii) *Mr. Edward SHEN was an Independent Non-Executive Director of the Company until he resigned on 1st April, 2004, is a director of, and holds a 60% interest in the issued share capital of Shen & P, which in turn holds a 50% interest in the issued share capital of each of SRT (China) and SRT. The fees, for the period from 1st January to 31st March, 2004 and the six months ended 30th June, 2003, were charged by reference to the prevailing market rates.*
- (iii) *MVM is engaged in the property management of Morning Star Villa (“MSV”). Certain Directors of the Company and its subsidiaries are also directors of MVM. Interest at 2 percent above the Hong Kong dollar prime rate per annum is charged on balances with MVM.*

- (iv) *Property management fees paid to MVM represent the property management fees of the vacant units of MSV owned by Jubilation Properties Limited, which is engaged in the development of MSV. The property management fees on unsold units are determined based on half the rate per square foot charged to the other owners of MSV.*

12. CONTINGENT LIABILITIES

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Bank guarantees	<u>280,021</u>	<u>296,588</u>

Included in bank guarantees above is an amount of HK\$274,160,000 (2003: HK\$290,412,000) in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and Morning Star Plaza.

13. CAPITAL COMMITMENTS

	30th June, 2004 (Unaudited) HK\$'000	31st December, 2003 (Audited) HK\$'000
Contracted for:		
Land and construction costs	24,714	13,766
Authorised, but not contracted for:		
Land and construction costs	<u>144,994</u>	<u>167,534</u>
	<u>169,708</u>	<u>181,300</u>

The above is the amount relating to the development of the Group's property projects in Zhongshan, the PRC, into a residential and commercial complex.

Save as disclosed above, the Group had no other significant capital commitments at the balance sheet date.

14. POST BALANCE SHEET EVENT

The Board of Directors of the Company announced on 4th August, 2004 that the Company has acquired a further 9% interest in Plaza on Hyde Park Limited ("POHP"), an associate of the Company, at a consideration of HK\$21,114,000 and the exercise period of an option to acquire a further 2% interest in POHP was agreed to be extended for a further period of 12 months up to 16th August, 2005.

For further details of the above option and acquisition, please refer to the announcement dated 4th August, 2004.

15. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 6th September, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF FINANCIAL RESULTS

Group Overview

For the six months ended 30th June, 2004, the Group's consolidated turnover amounted to HK\$239.4 million, representing an increase of 29.8% as compared to HK\$184.5 million for the corresponding period in 2003. For the period under review, the Group recorded a net loss from ordinary activities attributable to shareholders of HK\$4.2 million as compared to a net loss of HK\$11.3 million for the corresponding period last year.

Travel and Tourism Division

Total turnover for the Group's travel and travel-related services business for the six months ended 30th June, 2004 amounted to HK\$199.8 million, an increase of 29.2% as compared to HK\$154.6 million for the corresponding period in 2003. The number of customers who joined the outbound tours of the Group's major travel arm, Morning Star Travel Service Limited, for the six months ended 30th June, 2004 increased by 43.0% as compared to the corresponding period in 2003.

Persistent deflation, high unemployment rate and intense competitions continued to exert downward pressures on tour fare and profit margins of local outbound tour industry. Customers tended to choose lower-priced destinations, such as Thailand and Taiwan, instead of higher-priced long-haul tour packages. For the period under review, the Group's Travel and Tourism Division recorded a loss of HK\$9.1 million as compared to a loss of HK\$7.8 million for the same period last year.

Property Division

Total turnover of the Property Division for the six months ended 30th June, 2004 amounted to HK\$36.9 million as compared to HK\$13.8 million for the corresponding period in 2003. The Property Division recorded a loss of HK\$0.6 million for the six months ended 30th June, 2004 as compared to a loss of HK\$1.2 million for the same period last year. During the period under review, the Property Division focused on the clearance of the existing stock on hand and construction of Part I of Phase VIII of Morning Star Villa (“MSV”) and Parts II and III of Western site of Morning Star Plaza (“MSP”).

For MSV, the pre-sale of Part I of Phase VIII Firenze, which is still under construction, generated an accumulated sales value of HK\$22.4 million as at 30th June, 2004. It is anticipated that once the external environment and facilities there are completed, sales will improve as planned. The completion rate for the revised 168 units under Part I of Phase VIII Firenze was 76% as at 30th June, 2004.

For MSP, subsequent to the launch of “Colourful City” of Western site, an accumulated sales value of HK\$22.4 million had been achieved. Sales and profit arising from properties sold are accounted for in proportion to the completion rate of construction. As the completion rate of construction for Part III of Western site as at 30th June, 2004 was only 8%, the sales and profit arising from the units sold with a total sales value of HK\$3.7 million had not been taken up in the Group’s consolidated profit and loss account.

Hotel Division

Total turnover for the Group’s hotel investment and management business for the six months ended 30th June, 2004 amounted to HK\$1.5 million as compared to HK\$14.8 million for the corresponding period in 2003. The Group’s hotel property in Australia, Corus Grosvenor hotel in Adelaide, was sold in October 2003. For the six months ended 30th June, 2003, the turnover arising from the sold hotel property amounted to HK\$14.3 million or 96.3% of the total turnover of Hotel Division. The operating results amounted to a loss of HK\$517,000 for the period under review as compared to a profit of HK\$351,000 for the corresponding period in 2003.

With the Group's acquisition of a 40% interest in Plaza on Hyde Park Limited in 2001, the Group has equity accounted for its results which amounted to a profit of HK\$656,000 for the six months ended 30th June, 2004.

Financial Services Division

Total turnover of the Group's financial services business for the six months ended 30th June, 2004 amounted to HK\$1.0 million as compared to HK\$1.1 million for the corresponding period in 2003. The turnover of the Financial Services Division mainly derived from securities broking. The Financial Services Division achieved a profit of HK\$5.6 million for the six months ended 30th June, 2004 as compared to a loss of HK\$1.1 million for 2003. The improvement in operating results for period under review as compared to same period last year was due to capital distribution received from unlisted investment amounting to HK\$6.0 million for 2004.

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, remained the same as the corresponding period in 2003 at HK\$160,000.

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. For the six months ended 30th June, 2004, PEI declared a bonus issue to the Group totalling 93,396 shares of the Preferred Stock. After taking into consideration of the bonus issues received for the six months ended 30th June, 2004 and the year ended 31st December, 2003, the Group holds a total of 1,971,601 shares of the Preferred Stock in PEI. The dividend received by the Group for the six months ended 30th June, 2004, amounting to HK\$728,000 in value, is included in other revenue of the Group.

Geographical Segments

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

REVIEW OF BALANCE SHEET

Overview

Non-current assets of the Group as at 30th June, 2004 amounted to HK\$302.3 million, an increase of HK\$0.1 million compared to HK\$302.2 million as at 31st December, 2003. Non-current assets mainly consist of property, plant and equipment, investment properties, interests in jointly-controlled entities, interests in associates, long term investments, pledged bank balances and time deposits and deferred tax assets. There were little changes in the individual items of non-current assets since 31st December, 2003. Current assets of the Group as at 30th June, 2004 totalled HK\$328.0 million, against HK\$331.9 million as at 31st December, 2003. Current liabilities of the Group as at 30th June, 2004 amounted to HK\$268.7 million, compared with HK\$269.7 million as at 31st December, 2003.

Capital Structure, Liquidity and Financial Resources

As at the balance sheet date, the Group's total borrowings was HK\$159.8 million, comprising mainly short-term bank borrowings, with interest rates ranging from 2.09% to 6.00% per annum fixed at each drawdown date. The Group's banking facilities are mainly denominated in Hong Kong dollars and the total available banking facilities not utilised as at 30th June, 2004 amounted to HK\$21.9 million.

The Group's total current and long-term debts as at 30th June, 2004 was HK\$159.8 million as compared to HK\$154.5 million as at 31st December, 2003. The Group's total equity as at the balance sheet date was HK\$274.5 million as compared to HK\$278.1 million as at 31st December, 2003. The Group's gearing ratio as at 30th June, 2004 was 0.58 as compared to 0.56 as at 31st December, 2003. The computation 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. 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.

Capital Commitments

The Group had capital commitments totalling HK\$169.7 million as at the balance sheet date. The capital commitments mainly related to the Group's property projects in Zhongshan, PRC. They 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 an aggregate carrying value of HK\$87.4 million 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\$5.4 million have been pledged to certain banks to secure mortgage loans granted to purchasers of the properties developed by MSV and MSP.

Contingent Liabilities

As at the balance sheet date, the Group had contingent liabilities amounting to HK\$280.0 million. The contingent liabilities were mainly in respect of buy-back guarantees in favour of banks to secure the mortgage loans granted to the purchasers of the properties developed by MSV and MSP.

STAFF ANALYSIS

The total number of staff employed by the Group as at 30th June, 2004 was 451 as compared to 433 as at 31st December, 2003. 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 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

There was no material acquisition and new business for the period ended 30th June, 2004.

DIRECTORS' INTERESTS IN THE SECURITIES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June, 2004, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors or the chief executive were deemed or taken to have under such provisions of the SFO, which are required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers ("Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(i) The Company

(1) Shares

Name of Director	Notes	Nature of interest	Number of shares (Long position)	Percentage of issued share capital
Tan Sri Dr. KHOO Kay Peng	(a) & (b)	Corporate	1,821,373,657	75.43
CHEANG Yoon Hoong		Personal	19,918,500	0.82
KHET Kok Yin		Personal	6,807,500	0.28

(2) Warrants*

Name of Director	Notes	Nature of interest	The maximum number of shares to be issued upon the exercise of warrants
Tan Sri Dr. KHOO Kay Peng	(b)	Corporate	200,716,650
CHEANG Yoon Hoong		Personal	2,396,210
KHET Kok Yin		Personal	2,456,842

(* listed on the Stock Exchange)

(ii) Associated Corporation

Name of Associated Corporation	Name of Director	Notes	Nature of interest	Number of shares	Percentage of issued share capital
Morning Star Financial Services Limited ("MSFS")	Tan Sri Dr. KHOO Kay Peng	(a)	Corporate	192,500 ordinary shares of HK\$1.00 each	0.45

As at 30th June, 2004, certain Directors also held qualifying shares in certain subsidiaries of the Company which were beneficially owned by the Company or its other subsidiaries.

Notes:

- (a) 916,572,985 shares issued by the Company and 192,500 shares issued by MSFS were held by Firstway International Investment Limited ("Firstway"), of which each of Norcross Limited ("Norcross") and Cherubim Investment (HK) Limited ("Cherubim") had a 35% interest in the voting share capital. A 50% of the issued share capital of each of Norcross and Cherubim was held by KKP Holdings Sdn Bhd ("KKP Holdings"), and the remaining 50% of the issued share capital of each of those companies was held by Soo Lay Holdings Sdn Bhd ("SL Holdings"). Both of KKP Holdings and SL Holdings were beneficially owned by Tan Sri Dr. KHOO Kay Peng and his spouse. Pursuant to Section 344 of Part XV of the SFO, Tan Sri Dr. KHOO Kay Peng and his spouse were deemed to be interested in all the shares held by Firstway.
- (b) 904,800,672 shares and 200,716,650 underlying shares of the warrants were held by Bonham Industries Limited ("Bonham") which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. By virtue of the interests of Tan Sri Dr. KHOO Kay Peng and his spouse in KKP Holdings and SL Holdings as mentioned in Note (a) above, they were deemed to be interested in all the shares and warrants held by Bonham.

Save as disclosed above, there is no interests and short positions of each Director and chief executive of the Company in any shares and underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO), or which were required, to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

OTHER SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 30th June, 2004, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of the Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities together with particulars of any options in respect of such capital:

(i) Interests of substantial shareholders

(1) Shares

Name	Notes	Number of shares (Long position)	Percentage of issued share capital
CHAI Siew Phin, Pauline	(a)	1,821,373,657	75.43
KKP Holdings	(b) & (c)	1,821,373,657	75.43
SL Holdings	(b) & (c)	1,821,373,657	75.43
Cherubim	(b)	916,572,985	37.96
Norcross	(b)	916,572,985	37.96
Firstway	(b)	916,572,985	37.96
Bonham	(c)	904,800,672	37.47

(2) Warrants*

Name	Notes	The maximum number of shares to be issued upon the exercise of warrants
CHAI Siew Phin, Pauline	(a)	200,716,650
KKP Holdings	(b) & (c)	200,716,650
SL Holdings	(b) & (c)	200,716,650
Bonham	(c)	200,716,650

(* listed on the Stock Exchange)

Notes:

- (a) Pursuant to Section 316 of Part XV of the SFO, Ms. CHAI Siew Phin, Pauline being Tan Sri Dr. KHOO Kay Peng's spouse was deemed to be interested in all the shares and warrants in which Tan Sri Dr. KHOO Kay Peng was interested. The same interests have been disclosed by Tan Sri Dr. KHOO Kay Peng under the heading "Directors' interests in the securities and debentures of the Company and its associated corporations" above.
- (b) These shares were held by Firstway, of which each of Norcross and Cherubim had a 35% interest in the voting share capital. Norcross and Cherubim were owned as to 50% by KKP Holdings and 50% by SL Holdings. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings, SL Holdings, Norcross and Cherubim was deemed to be interested in the shares held by Firstway.
- (c) These shares and warrants were held by Bonham, which was owned as to 37.18%, 49.22% and 13.60% by KKP Holdings, SL Holdings and Norcross respectively. Pursuant to Section 316 of Part XV of the SFO, each of KKP Holdings and SL Holdings was deemed to be interested in the shares and warrants held by Bonham.

(ii) Interests of other persons

(1) Shares

Name	Notes	Number of shares (Long Position)	Percentage of issued share capital
Hope Foundation ("HF")	(a) & (b)	238,970,500	9.90
Hope International Limited ("HIL")	(b)	175,970,500	7.29
Prime View International Limited ("PVI")	(b)	175,970,500	7.29

(2) Warrants*

Name	Notes	The maximum number of shares to be issued upon the exercise of warrants
PVI	(b)	13,126,484

(* listed on the Stock Exchange)

Notes:

- (a) 63,000,000 shares were held by Hope Investment Limited, which is 100% owned by HF. Pursuant to Section 316 of Part XV of the SFO, HF was deemed to be interested in all the shares held by Hope Investment Limited.
- (b) These shares were held by PVI. PVI is 100% owned by HIL which in turn is 100% owned by HF. Pursuant to Section 316 of Part XV of the SFO, each of HIL and HF was deemed to be interested in all the shares held by PVI.

Save as disclosed above, as at 30th June, 2004, none of the Directors or chief executive knows of any person (not being a Director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities together with particulars of any options in respect of such capital.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 on the Stock Exchange throughout the accounting period covered by the interim 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 audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim statements. The audit committee constituted an Independent Non-Executive Director and a Non-Executive Director of the Company.

By Order of the Board
CHAN MOK SENG
Executive Director

Hong Kong, 6th September, 2004